

**UNITED ELECTRONICS COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND AUDITORS' REPORT**  
**YEAR ENDED DECEMBER 31, 2010**

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## AUDITORS' REPORT

To the stockholders  
United Electronics Company  
Al Khobar, Saudi Arabia

### Scope of Audit

We have audited the balance sheet of United Electronics Company (a Saudi Closed Joint Stock Company) as of December 31, 2010 and the related statements of income, stockholders' equity and cash flows for the year then ended, and notes 1 to 21 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

### Unqualified Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the Articles of the Company as these relate to the preparation and presentation of these financial statements.

### Other Matters

Without qualifying our opinion, we draw attention to note 1 to the financial statements where it is stated that although the Company's Articles specifically states that the first fiscal year of the Company is to commence from the date of the ministerial approval on official announcement of the conversion of the Company to Closed Joint Stock Company to December 31 of the following year, the Company's management believes that the conversion transaction will not affect the continuation of the business and decided accordingly, to present financial statements for the full year from January 1, 2010 to December 31, 2010 to better reflect the operations of the Company on a consistent and comparable basis.

Deloitte & Touche  
Bakr Abulkhair & Co.

Wafed Moh'd Sobahi  
License No. 378  
22 Safar, 1432  
January 26, 2011



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**UNITED ELECTRONICS COMPANY  
(CLOSED JOINT STOCK COMPANY)**

**BALANCE SHEET  
AS OF DECEMBER 31, 2010**

	Note	2010 SR	2009 SR
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	30,225,095	14,690,045
Trade receivable		4,985,769	14,340,780
Due from related parties	13	-	191,054,235
Inventories	4	256,603,080	205,617,779
Prepayments and other debit balances	5	30,161,410	34,515,433
<b>Total current assets</b>		<b>321,975,354</b>	<b>460,218,272</b>
<b>Non-current assets</b>			
Investment in an associate	6	-	2,168,880
Investment in a subsidiary	7	297,000	-
Property and equipment	8	266,957,607	170,608,609
<b>Total non-current assets</b>		<b>267,254,607</b>	<b>172,777,489</b>
<b>TOTAL ASSETS</b>		<b>589,229,961</b>	<b>632,995,761</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Due to banks	9	2,531,355	87,966,726
Medium term loans - current portion	11	6,153,846	2,740,113
Trade payables and other liabilities	10	304,123,318	387,017,298
<b>Total current liabilities</b>		<b>312,808,519</b>	<b>477,724,137</b>
<b>Non-current liabilities</b>			
Medium term loans	11	12,307,692	-
Deferred revenue on extended service plan		6,745,326	-
End-of-service indemnities	14	14,101,241	9,735,032
<b>Total non-current liabilities</b>		<b>33,154,259</b>	<b>9,735,032</b>
<b>Stockholders' equity</b>			
Share capital	1	240,000,000	100,000,000
Statutory reserve	1,15	3,267,019	4,553,660
Retained earnings		164	40,982,932
<b>Total stockholders' equity</b>		<b>243,267,183</b>	<b>145,536,592</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>589,229,961</b>	<b>632,995,761</b>

The accompanying notes form an integral part of these financial statements

**UNITED ELECTRONICS COMPANY  
(CLOSED JOINT STOCK COMPANY)**

**STATEMENT OF INCOME  
YEAR ENDED DECEMBER 31, 2010**

	Note	2010 SR	2009 SR
Revenue	13,16	1,778,382,259	1,439,858,449
Cost of revenue	13	1,456,290,204	1,214,290,360
<b>Gross profit</b>		<b>322,092,055</b>	225,568,089
Selling and distribution expenses	13,17	157,157,131	130,281,542
General and administrative expenses	18	65,501,730	54,380,319
<b>Operating income</b>		<b>99,433,194</b>	40,906,228
Finance charges	9,11	(4,366,351)	(4,869,370)
Finance income	13	4,194,094	4,784,006
Share of income from an associate	6	-	548,564
Gain on sale of investment in an associate		522,046	-
Other income, net		284,549	1,235,427
<b>Net income before zakat</b>		<b>100,067,532</b>	42,604,855
Zakat	12	2,336,941	1,556,648
<b>NET INCOME</b>		<b>97,730,591</b>	41,048,207

The accompanying notes form an integral part of these financial statements

**UNITED ELECTRONICS COMPANY  
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**STATEMENT OF STOCKHOLDERS' EQUITY  
YEAR ENDED DECEMBER 31, 2010**

	Notes	Share capital SR	Statutory reserve SR	Retained earnings SR	Total SR
January 1, 2009		100,000,000	448,839	4,039,546	104,488,385
Net income for year		-	-	41,048,207	41,048,207
Transferred to statutory reserve	15	-	4,104,821	(4,104,821)	-
December 31, 2009		100,000,000	4,553,660	40,982,932	145,536,592
Net income for year		-	-	97,730,591	97,730,591
Transferred to statutory reserve	15	-	9,773,059	(9,773,059)	-
Transferred to share capital	1	140,000,000	(11,059,700)	(128,940,300)	-
December 31, 2010		<u>240,000,000</u>	<u>3,267,019</u>	<u>164</u>	<u>243,267,183</u>

The accompanying notes form an integral part of these financial statements

**UNITED ELECTRONICS COMPANY**  
(CLOSED JOINT STOCK COMPANY)

**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2010**

	2010 SR	2009 SR
<b>OPERATING ACTIVITIES</b>		
Net income before zakat	100,067,532	42,604,855
Adjustments for:		
Depreciation	18,822,407	16,517,024
Amortization	-	3,377,359
Finance charges	4,366,351	4,869,370
Finance income	(4,194,094)	(4,784,006)
Share of income from an associate	-	(548,564)
Gain on sale of investment in an associate	(522,046)	-
Provision for doubtful debts	1,340,383	979,796
Gain on disposal of property and equipment	(140,089)	-
End-of-service indemnities	4,975,594	3,872,771
Changes in operating assets and liabilities:		
Trade receivable	8,014,628	(7,026,704)
Inventories	(50,985,301)	(33,034,902)
Prepayments and other debit balances	4,354,023	(21,091,607)
Trade payables and other liabilities and extended service plan	(76,859,506)	82,016,383
Cash from operations	9,239,882	87,751,775
End-of-service indemnities paid	(609,385)	(344,001)
Finance charges paid	(4,657,499)	(4,842,022)
Zakat paid	(1,334,941)	(777,448)
<b>Net cash from operating activities</b>	<b>2,638,057</b>	<b>81,788,304</b>
<b>INVESTING ACTIVITIES</b>		
Additions to property and equipment	(115,368,300)	(32,800,087)
Finance income received	4,194,094	4,784,006
Proceeds from disposal of property and equipment	336,984	723,304
Proceeds from sale of investment in an associate	2,690,926	-
Investment in a subsidiary	(297,000)	-
<b>Net cash used in investing activities</b>	<b>(108,443,296)</b>	<b>(27,292,777)</b>
<b>FINANCING ACTIVITIES</b>		
Due to banks	(85,435,371)	23,416,217
Medium term loans obtained	20,000,000	-
Repayment of medium term loans	(4,278,575)	(19,287,069)
Due from related parties	191,054,235	(98,639,820)
<b>Net cash from (used in) financing activities</b>	<b>121,340,289</b>	<b>(94,510,672)</b>
<b>Net change in cash and cash equivalents</b>	<b>15,535,050</b>	<b>(40,015,145)</b>
Cash and cash equivalents, January 1	14,690,045	54,705,190
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>30,225,095</b>	<b>14,690,045</b>

The accompanying notes form an integral part of these financial statements

**UNITED ELECTRONICS COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2010**

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**1. ORGANIZATION AND ACTIVITIES**

United Electronics Company (the "Company") is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010175357 issued in Riyadh on 19 Muharram 1423H (April 1, 2002). In 2004, the Company's head office was transferred from Riyadh to Al Khobar and, accordingly, the Commercial Registration number was changed to 2051029841 dated 27 Jammad II 1425H (July 27, 2004). The Company's share capital was SR 100 million divided in to 10 million shares of SR 10 each.

In 2009, the shareholders of the Company resolved to convert the Company from Limited Liability Company to Closed Joint Stock Company by the introduction of new shareholders. The Company obtained the ministerial approval on the conversion on December 14, 2009. On February 17, 2010, the Company obtained the ministerial approval on the official announcement of the conversion and has obtained the new commercial registration certificate.

During the year, the stockholders' of the Company resolved to increase the share capital of the Company from SR 100 million to SR 240 million by transferring SR 128.94 million from retained earnings and SR 11.06 million from statutory reserve. Legal formalities related to increase in share capital were completed during the year.

The stockholders of the Company and their respective shareholding as of December 31, 2010 are as follows:

<u>Name</u>	<u>Ownership percentage</u>
Al Fozan Holding Company	65%
Abdulaziz Alsaghyir Commercial Investment Company	22%
Rokn Al Elham For Development Company Limited	3%
Itlalah Arabia Trading Company	5%
Abdullatif and Mohammed Al-Fozan Company	3%
Ma'aly Al Khaleej Trading Company	2%
	<u>100%</u>

Although the Company's Articles specifically states that the first fiscal year of the Company is to commence from the date of the ministerial approval on the official announcement of the conversion of the Company of the Closed Joint Stock Company to December 31 of the following year, The Company's management believes that the conversion transaction will not affect the continuation of the business and decided accordingly, to present financial statements for the full year from January 1, 2010 to December 31, 2010 to better reflect the operations of the Company on a consistent and comparable basis.

As per the Company's commercial registration, the Company's principal activities are the retail and wholesale of electrical and electronic devices and tools, computers and mobile telephones and their related spare parts and accessories, furniture and fixtures and office equipment and other related repair and maintenance services as well as trading in food stuff.



**UNITED ELECTRONICS COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

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The accompanying financial statements include the financial results of the Company's head office and its branches as follows:

<u>City</u>	<u>CR number</u>
Al Khobar	2051029841
Riyadh – Worood	1010175357
Jeddah – Sultan	4030146479
Riyadh – Ghurnath	1010204256
Riyadh – Sweidi	1010210628
Abha	5850027004
Taif	4032025960
Al Hassah	2252035727
Al Maddina	4650038844
Buraidah	1131025972
Dammam	2050062467
Jeddah – Old Airport	4030189019
Riyadh – Khurais	1010283056
Riyadh – Al Raed	1010300686
Tabok	3550026190
Makkah	4031060798
Al Remal	1010300685

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants. The following is a summary of significant accounting policies applied by the Company:

### **Accounting convention**

The financial statements are prepared under the historical cost convention.

### **Revenue recognition**

Sales are recognized upon delivery of goods to customers. Rental income, principally for rental of floor and shelf space, is recognized on an accruals basis based on the terms of rental contracts. Service income is recognized when services are rendered to the customers.

Revenue from extended service plan is recognized on a partial basis where by a portion of revenue is recognized at the time of sales while the remaining portion is deferred and amortized over the period of service agreement.

### **Expenses**

Selling and distribution expenses principally comprise of costs incurred in the sale and distribution of the Company's products. All other expenses are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of cost of revenue as required under generally accepted accounting principles. Allocations between general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

**UNITED ELECTRONICS COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

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**Accounts receivable**

Accounts receivable are carried at original amount less provision made for doubtful receivable. A provision for doubtful accounts is established when there is significant doubt that the Company will not be able to collect all amounts due according to the original terms of accounts receivable.

**Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a weighted average cost basis.

**Investment in an associate**

An associate is an enterprise in which the Company is in a position to exercise significant influence, through participation in the financial and operating policy decisions of investee. The results and assets and liabilities of an associate are incorporated in these financial statements using the equity method of accounting based on the latest available financial information.

**Investment in a subsidiary**

A subsidiary is an enterprise that is controlled by the Company by governing the financial and operating policies. The results and assets and liabilities of subsidiaries are incorporated in these financial statements using the equity method of accounting rather than being consolidated as the Subsidiary is in the pre-operation stage.

**Property and equipment**

Property and equipment are stated at cost less accumulated depreciation except for land which is stated at cost. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the depreciable assets using the straight-line method. Depreciation on leasehold improvements is provided over shorter of useful life or lease term using straight-line method.

The estimated useful lives of the principal classes of assets are as follows:

	<u>Years</u>
Buildings and leasehold improvements	15 – 33
Furniture, fixtures and office equipment	4 – 10
Vehicles	5

**Impairment**

As of each balance sheet date, the Company reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

**UNITED ELECTRONICS COMPANY  
(CLOSED JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED DECEMBER 31, 2010**

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Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

**Foreign currency transactions**

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of income.

**Provisions for obligation**

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**End-of-service indemnities**

End-of-service indemnities, required by Saudi Arabian labor law, are provided in the financial statements based on the employees' length of service.

**Zakat**

The Company is subject to the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is provided on an accruals basis and is computed on the Company's zakat base and charged to the statement of income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

**Leasing**

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Company as lessor*

Rental income from operating leases is recognized on a straight-line basis over the operating lease period.

*The Company as lessee*

Rentals payable under operating leases are charged to statement of income on a straight-line basis over the term of the operating lease.

**3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash, bank balances and highly liquid investments with maturities of three months or less. As of December 31, 2010 and 2009, cash and cash equivalents consist entirely of cash and bank balances.

**UNITED ELECTRONICS COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

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**4. INVENTORIES**

Inventories represent items held for sale in ordinary course of business of the Company. These mainly comprised of electronics, household appliances, computers, digital devices and others.

**5. PREPAYMENTS AND OTHER DEBIT BALANCES**

	<b>2010</b>	<b>2009</b>
	<b>SR</b>	<b>SR</b>
Prepaid rent	<b>16,397,912</b>	14,868,288
Advances to suppliers	<b>5,815,772</b>	10,925,777
Receivable from employees	<b>4,507,663</b>	6,549,006
Prepaid insurance	<b>1,297,017</b>	961,154
Other receivables	<b>2,143,046</b>	1,211,208
	<b>30,161,410</b>	<b>34,515,433</b>

**6. INVESTMENT IN AN ASSOCIATE**

Investment in an associate represents equity interest of 40% in Elixir Creative Solution Co. (the "Elixir"), a Saudi limited liability company incorporated on March 14, 2006. During the year, the Company had sold this investment.

**7. INVESTMENT IN A SUBSIDIARY**

Investment in a subsidiary represents equity interest of 99% in United Electronics Maintenance and Computer Company (the "Subsidiary"), a Saudi limited liability company incorporated on 10 Rajab 1431H (June 22, 2010). The principal activities of the Subsidiary are maintenance and repair and warranties for electronics, digital and electrical devices, home appliances and computers and wholesale trading and spare parts for electrical and digital devices, photocopy and fax machines, telephones, cell phones, video and electric games, digital assistants, printer and computer related devices.

As the Subsidiary has not commenced its operations upto December 31, 2010 and the Subsidiary was determined to be immaterial and accordingly, financial statements for the year ended December 31, 2010 were not consolidated.

**UNITED ELECTRONICS COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

**8. PROPERTY AND EQUIPMENT**

	Land SR	Buildings and leasehold improvements SR	Furniture, fixtures and office equipment SR	Vehicles SR	Capital work-in- progress SR	Total SR
<b>Cost</b>						
January 1, 2010	24,514,881	102,806,207	92,595,085	6,157,790	4,703,083	230,777,046
Additions	<b>57,146,601</b>	<b>3,648,093</b>	<b>6,851,341</b>	<b>2,115,580</b>	<b>45,606,685</b>	<b>115,368,300</b>
Transfers	-	22,667,931	12,473,102	685,300	(35,826,333)	-
Disposals	-	-	(336,071)	(567,850)	-	(903,921)
December 31, 2010	<b>81,661,482</b>	<b>129,122,231</b>	<b>111,583,457</b>	<b>8,390,820</b>	<b>14,483,435</b>	<b>345,241,425</b>
<b>Depreciation</b>						
January 1, 2010	-	13,707,413	42,626,142	3,834,882	-	60,168,437
Charge for year	-	4,644,049	13,183,084	995,274	-	18,822,407
Disposals	-	-	(205,773)	(501,253)	-	(707,026)
December 31, 2010	-	<b>18,351,462</b>	<b>55,603,453</b>	<b>4,328,903</b>	-	<b>78,283,818</b>
<b>Net book value</b>						
December 31, 2010	<b>81,661,482</b>	<b>110,770,769</b>	<b>55,980,004</b>	<b>4,061,917</b>	<b>14,483,435</b>	<b>266,957,607</b>
December 31, 2009	24,514,881	89,098,794	49,968,943	2,322,908	4,703,083	170,608,609

Some of the Company's store buildings located in different cities of Kingdom of Saudi Arabia are leased for a period ranging from 5 to 20 years. The Company's store building located in Al Khobar is constructed on a land leased from Abdullaftif and Mohammed Al Fozan Co., a related party and an ultimate shareholder, for a period of 25 years commencing from June 30, 2003.

Capital work-in-progress mainly represents showrooms building and facilities under construction.

**9. BANK FACILITIES**

The Company has bank facilities from local banks for short-term loans, overdrafts, letters of guarantee, letters of credit and Murabaha facilities etc. These facilities are subject to interest at commercial rates and are secured by corporate guarantees from the stockholders.

**10. TRADE PAYABLES AND OTHER LIABILITIES**

	2010 SR	2009 SR
Trade payables	247,232,612	326,640,534
Due to a related party (note 13)	-	4,355,341
Deferred revenue on extended service plan – current portion	9,360,622	17,265,916
Accrued bonus	12,002,076	11,959,255
Advances from customers	14,270,034	10,909,963
Accrued suppliers claims	4,648,670	3,090,830
Zakat (note 12)	2,502,000	1,500,000
Others	14,107,304	11,295,459
	<b>304,123,318</b>	<b>387,017,298</b>

**UNITED ELECTRONICS COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

**11. MEDIUM TERM LOANS**

In 2006, the Company obtained a medium term loan from a local bank to finance the expansion. The loan carries mark up on commercial rates and was secured against corporate guarantees of the shareholders. The loan is repayable in quarterly installments started from March 31, 2007. During the year, the loan was fully paid.

In 2008, the Company obtained another medium term loan from a local bank. The loan carries mark up on commercial rates. The loan is repayable in eight equal quarterly installments started from April 30, 2008. During the year, the loan was fully paid.

During the year, the Company obtained another medium term loan from a local bank. The loan is repayable in thirteen equal quarterly payments starting from December 31, 2010. The loan carries a mark up on commercial rate. The loan is secured by corporate guarantee issued by Abdullaftif and Mohammed Al Fozan Co., a related party and an ultimate shareholder.

The aggregate maturities of outstanding medium term loans as of December 31, are summarized as follows:

	2010 SR	2009 SR
Due in year one	6,153,846	2,740,113
Due in year two	6,153,846	-
Due in year three	6,153,846	-
	<u>18,461,538</u>	<u>2,740,113</u>

**12. ZAKAT**

The principal elements of the zakat base are as follows:

	2010 SR	2009 SR
Non-current assets	267,254,607	172,777,489
Non-current liabilities	33,154,259	9,735,032
Opening stockholders' equity	145,536,592	104,488,385
Net income before zakat	100,067,532	42,604,855

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

The movement in zakat is as follows:

	2010 SR	2009 SR
January 1	1,500,000	760,000
Provision for year	2,502,000	1,500,000
(Over) under provision in previous year	(165,059)	17,448
Payments during year	(1,334,941)	(777,448)
December 31	<u>2,502,000</u>	<u>1,500,000</u>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

The charge for the year for zakat is as follows:

	2010 SR	2009 SR
Zakat for current year	2,502,000	1,500,000
(Over) under provision in previous year	(165,059)	17,448
Share of zakat from an associate	-	39,200
Charged to statement of income	<u>2,336,941</u>	<u>1,556,648</u>

The Company has submitted its zakat returns up to year ended December 31, 2009, settled zakat due as per the return and obtained the required certificates and official receipts.

**13. RELATED PARTY TRANSACTIONS**

During the year, the Company transacted with the following related parties:

Name	Relationship
Al Fozan Group of Companies	Shareholder / affiliates
Abdulaziz Alsaghyir Commercial Investment Company	Shareholder
Digital & Electronic Solutions Development Company ("DESD")	Affiliate

Significant transactions and the related amounts are as follows:

	2010 SR	2009 SR
Land purchased	26,440,087	-
Sales	(970,731)	(2,458,639)
Purchases	14,178,656	28,794,193
Interest charged to a related party	(4,194,094)	(4,784,006)
Rent of land	2,707,724	1,356,000
Rental income	(900,000)	(1,506,667)

Due from related parties as of December 31 are as follows:

	2010 SR	2009 SR
Digital & Electronic Solutions Development Company ("DESD")	-	189,175,036
Abdulaziz Alsaghyir Commercial Investment Company	-	79,199
Hani Ebraheem Khogah	-	600,000
Haitham Ebraheem Khogah	-	600,000
Sami Abdulkareem Al-Dhahaby	-	600,000
	<u>-</u>	<u>191,054,235</u>

Receivable from DESD represents funds made available to carry its activities. Such activities are expected to bring new opportunities for the business of the Company and its operations. Receivable from DESD earn financial income at market rates. During the year, the full amount has been received.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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Due to a related party as of December 31, 2010 amounting to nil (2009: SR 4,355,341) represents amount due to Al Fozan Holding Co., a shareholder.

**14. END-OF-SERVICE INDEMNITIES**

	2010 SR	2009 SR
January 1	9,735,032	6,206,262
Provision for year	4,975,594	3,872,771
Payments during year	(609,385)	(344,001)
December 31	<u>14,101,241</u>	<u>9,735,032</u>

**15. STATUTORY RESERVE**

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

**16. REVENUE**

	2010 SR	2009 SR
Sales	1,705,929,449	1,388,475,984
Services, rental and other operating income (note 19)	72,452,810	51,382,465
	<u>1,778,382,259</u>	<u>1,439,858,449</u>

**17. SELLING AND DISTRIBUTION EXPENSES**

	2010 SR	2009 SR
Salaries, wages and employees benefits	67,166,144	51,343,112
Advertising and other related cost	24,989,970	21,624,092
Rent	23,239,718	19,864,886
Depreciation	14,819,702	12,829,597
Utilities	11,623,964	8,841,279
Repair and maintenance	4,964,710	4,578,951
Amortization	-	3,377,359
Travel and accommodation	813,955	956,961
Others	9,538,968	6,865,305
	<u>157,157,131</u>	<u>130,281,542</u>



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**18. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2010</b>	2009
	<b>SR</b>	SR
Salaries, wages and employees benefits	<b>47,569,256</b>	36,756,126
Depreciation	<b>4,002,705</b>	3,687,427
Travel, accommodation and communications	<b>2,336,182</b>	1,523,313
Legal and consultancy	<b>2,008,774</b>	3,413,981
Rent	<b>237,840</b>	237,840
Utilities, printing and stationary	<b>978,417</b>	1,328,131
Repair and maintenance	<b>1,362,066</b>	1,050,722
Provision for doubtful debts	<b>1,340,383</b>	979,796
Others	<b>5,666,107</b>	5,402,983
	<b>65,501,730</b>	54,380,319

**19. OPERATING LEASE ARRANGEMENTS**

*Company as lessee*

	<b>2010</b>	2009
	<b>SR</b>	SR
Payments under operating leases recognized as an expense during the year	<b>23,477,558</b>	20,102,726

Operating lease payments represent rentals payable by the Company for its showrooms, warehouses and other premises for a period from 1 to 25 years. Rentals are fixed for the terms of the lease.

Commitments for minimum lease payments under non-cancelable operating leases in each of the next 4 years are as follows:

	<b>2010</b>	2009
	<b>SR</b>	SR
Year 1	<b>33,119,925</b>	22,618,958
Year 2	<b>31,184,592</b>	27,093,669
Year 3	<b>27,720,793</b>	23,749,435
Year 4	<b>27,553,189</b>	23,497,824

*Company as lessor*

The Company also has operating leases with its customers for rental of floor and shelf space which generally have a term of one year. Rental income for the year ended December 31, 2010 under such leases amounted to approximately SR 2.8 million (2009: SR 3.3 million).

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**YEAR ENDED DECEMBER 31, 2010**

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**20. CONTINGENCIES AND COMMITMENTS**

As of December 31, the Company had the following contingencies and commitments:

	2010	2009
	SR	SR
Letters of guarantee	<u>3,694,193</u>	<u>23,181,667</u>
Letters of credit	<u>96,547,624</u>	<u>129,508,451</u>

The letters of guarantee include nil (2009: SR 20 million) given on behalf of an affiliate. The letters of credit include nil (2009: SR 52.5 million) issued on behalf of an affiliate.

**21. FAIR VALUES**

The fair values of the Company's financial assets and liabilities approximate their carrying amounts.