MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER

(LIMITED LIABILITY COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

YEAR ENDED DECEMBER 31, 2011

Deloitte.

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AUDITORS' REPORT

To the shareholders
Middle East Company for Manufacturing and Producing Paper
Limited Liability Company
Jeddah, Saudi Arabia

Scope of Audit

We have audited the accompanying consolidated balance sheet of Middle East Company for Manufacturing and Producing Paper (a Saudi limited liability company) and its subsidiaries ("the Group") as of December 31, 2011, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, and notes 1 to 22 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 175 of the Regulations for Companies and presented to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Unqualified Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2011, and the consolidated results of its operations and its consolidated cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia and appropriate to the nature of the Group 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 consolidated financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.

Waleed Bin Moha'd. Sobahi
Certified Public Accountant
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C.P.A
Deloitte & Touche
Bakr Abulkhair & Co.

9 Jumada'I, 1433
April 1, 2012

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(LIMITED LIABILITY COMPANY)
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2011
(Expressed in Saudi Riyals)

	Note	2011	2010
ASSETS			
Current assets			
Cash and cash at banks		34,430,555	17,953,745
Accounts receivable	3	203,619,752	117,092,639
Due from a related party	19	99,000,000	-
Inventories	4	116,562,526	144,260,121
Prepaid expenses and other receivables	5	75,641,798	54,686,024
Total current assets		**529,254,631**	**333,992,529**
Non-current assets			
Investment in companies	6	-	103,242,036
Property, plant and equipment	7	918,013,070	868,996,446
Total non-current assets		**918,013,070**	**972,238,482**
TOTAL ASSETS		**1,447,267,701**	**1,306,231,011**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term loans and notes payable	8	143,030,542	227,406,343
Current portion of long-term loans	8	256,445,832	188,731,328
Accounts payable		30,845,975	31,879,823
Accrued expenses and other liabilities	9	21,571,302	14,817,084
Total current liabilities		**451,893,651**	**462,834,578**
Non-current liabilities			
Long-term loans	8	553,641,096	491,642,012
End-of-service indemnities	11	10,459,177	8,717,739
Total non-current liabilities		**564,100,273**	**500,359,751**
Shareholders' equity			
Share capital	12	360,000,000	220,000,000
Proposed increase in share capital	12	-	100,000,000
Statutory reserve	13	28,123,133	19,548,351
Retained earnings		18,519,069	6,346,027
Shareholders' accounts		24,589,804	(2,857,696)
Equity attributable to equity holders of the Company		**431,232,006**	**343,036,682**
Non-controlling interest		41,771	-
Total shareholders' equity		**431,273,777**	**343,036,682**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,447,267,701**	**1,306,231,011**

The accompanying notes form an integral part of these consolidated financial statements

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER

(LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2011

(Expressed in Saudi Riyals)

	Note	2011	2010
Sales		650,835,291	471,063,207
Cost of sales		(475,900,633)	(322,059,113)
Gross profit		174,934,658	149,004,094
Selling and distribution expenses	14	(30,902,614)	(26,151,551)
General and administrative expenses	**15**	**(33,180,622)**	**(26,133,733)**
Operating income		110,851,422	96,718,810
Finance charges		(25,999,673)	(19,774,890)
Share of loss from a joint project	6	(3,908,552)	(347,144)
Gain from sale of an investment	6	366,461	-
Other income		**5,274,531**	**4,694,267**
Income before zakat		86,584,189	81,291,043
Zakat and income tax	10	(795,166)	(649,664)
NET INCOME		**85,789,023**	**80,641,379**
NET INCOME ATTRIBUTABLE TO:			
Shareholders' of the Company		85,747,824	80,641,379
Non-controlling interest		41,199	-
		85,789,023	**80,641,379**

The accompanying notes form an integral part of these consolidated financial statements

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER

(LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

YEAR ENDED DECEMBER 31, 2011

(Expressed in Saudi Riyals)

	Note	Share capital	Proposed increase in share capital	Statutory reserve	Retained earnings	Shareholders' accounts	Non-controlling interest	Total
January 1, 2010		220,000,000	-	11,484,213	4,168,786	(2,939,698)	-	**232,713,301**
Net income for 2010		-	-	-	80,641,379	-	-	**80,641,379**
Transfer to statutory reserve	13	-	-	8,064,138	(8,064,138)	-	-	**-**
Transfer from retained earnings and shareholders' account to the account of the proposed increase in capital		-	100,000,000	-	(70,400,000)	(29,600,000)	-	**-**
Movement during the year		-	-	-	-	29,682,002	-	**29,682,002**
December 31, 2010		220,000,000	100,000,000	19,548,351	6,346,027	(2,857,696)	-	**343,036,682**
Net income for 2011		-	-	-	85,747,824	-	41,199	**85,789,023**
Transfer to statutory reserve	13	-	-	8,574,782	(8,574,782)	-	-	**-**
Transferred to share capital		140,000,000	(100,000,000)	-	(40,000,000)	-	-	**-**
Dividends transferred to shareholders' accounts		-	-	-	(25,000,000)	25,000,000	-	**-**
Movement during the year		-	-	-	-	2,447,500	572	**2,448,072**
December 31, 2011		**360,000,000**	**-**	**28,123,133**	**18,519,069**	**24,589,804**	**41,771**	**431,273,777**

The accompanying notes form an integral part of these consolidated financial statements

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(LIMITED LIABILITY COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011
(Expressed in Saudi Riyals)

	2011	2010
OPERATING ACTIVITIES		
Net income before zakat and minority interest	**86,584,189**	81,291,043
Adjustments for:		
Depreciation	**56,713,352**	39,368,799
Gains from sale of property, plant and equipment	**(440,527)**	(157,545)
Allowance for doubtful debts	**-**	2,066,259
Allowance for slow moving inventory	**3,000,000**	3,100,000
Share of income from subsidiaries	**-**	(678,209)
Gain from sale of investment	**(366,461)**	-
Share of loss from joint project	**3,283,154**	347,144
End-of-service indemnities	**2,508,003**	3,202,036
Changes in operating assets and liabilities:		
Accounts receivable	**(86,527,113)**	(32,069,396)
Inventories	**(14,477,849)**	(15,371,473)
Prepaid expenses and other receivables	**(15,509,038)**	(275,545)
Accounts payable	**(1,033,848)**	8,047,093
Accrued expenses and other liabilities	**7,000,006**	**888,616**
Cash from operations	**40,733,868**	89,758,822
Zakat Paid	**(1,040,954)**	(69,779)
End-of-service indemnities paid	**(766,565)**	(284,881)
Net cash from operating activities	**38,926,349**	**89,404,162**
INVESTING ACTIVITIES		
Investment in companies	**(4,121,393)**	3,689,035
Purchase of property, plant and equipment	**(67,683,111)**	(132,786,458)
Proceeds from sale of property, plant and equipment	**1,569,106**	258,745
Net cash used in investing activities	**(70,235,398)**	**(128,838,678)**
FINANCING ACTIVITIES		
Short-term loans and notes payable	**(84,375,801)**	94,540,983
Long-term loans	**129,713,588**	(76,824,812)
Shareholders' accounts	**2,447,500**	29,682,002
Non-controlling interest	**572**	-
Net cash from financing activities	**47,785,859**	**47,398,173**
Net change in cash and cash equivalents	**16,476,810**	**7,963,657**
Cash and cash equivalents, January 1	**17,953,745**	**9,990,088**
CASH AND CASH EQUIVALENTS, DECEMBER 31	**34,430,555**	**17,953,745**

The accompanying notes form an integral part of these consolidated financial statements

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(LIMITED LIABILITY COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS - Continued
YEAR ENDED DECEMBER 31, 2011
(Expressed in Saudi Riyals)

	2011	2010
Non-cash transactions:		
Transfer from shareholders and retained earnings to proposed increase in share capital	-	100,000,000
Capital increase from retained earnings	**40,000,000**	-
Capital increase from the proposed increase in capital	**100,000,000**	-
Property and equipment addition through the inventory	**39,175,444**	-
Inventory written off during the year from the provision	**2,810,667**	-
Sale of investments at net book value to a related party	**99,000,000**	-
Transfer from investments to other receivables	**3,562,500**	-
Dividends receivable due from investments	**1,884,236**	-
Dividends transferred to the shareholders' accounts	**25,000,000**	**-**

The accompanying notes form an integral part of these consolidated financial statements

(Expressed in Saudi Riyals)

1. ORGANIZATION AND ACTIVITIES

Middle East Company Limited for Manufacturing and Producing Paper ("the Company") was a Saudi limited liability company registered on 3 Rajab, 1421 (October 1, 2000) in Jeddah under commercial registration number 4030131516.

The shareholders resolved to convert the legal status of the Company from a limited liability company into a Saudi closed joint stock company. The Ministry of Commerce has approved the conversion of the Company to a Saudi Closed Joint Stock Company by Ministerial Decision No. 44 dated 14/2/1433 (January 8, 2012). In addition to that, the shareholders have also resolved for an Initial Public Offering (IPO) and they have appointed various financial and other consultants to complete the process and file it with the Capital Market Authority.

Subsequently, shareholders resolved on 21 Rabi 2 1433 (March 14, 2012) to increase the share capital by an amount of SR 40 million to be SR 400 million at the same shareholding percentages, through a transfer from the shareholders' accounts and the retained earnings.

The principal activities of the Company and its investees are producing and sale of craft paper and contour paper according to the license of the Ministry of Commerce and Industry no 1500/S dated 28 Dhual Qa'dah, 1420.

The Company's principal place of business is Jeddah.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia. The following is a summary of significant accounting policies applied by the Group:

Basis of consolidation

The consolidated financial statements include the Company's and the following subsidiaries' financial statements in which the Company has control directly or indirectly through its subsidiaries (hereinafter referred to as "the Group" or "the Company"):

Name of subsidiary	Place of incorporation	Proportion of ownership	Principal activities
Waste Collection and Recycling Company Limited	Saudi Arabia	97% Directly 3% Indirectly	Whole and retail sales of paper, carton and plastic waste
Special Achievements Company Ltd.	Saudi Arabia	97% Directly 3% Indirectly	Whole and retail sales of used papers, carton and plastic products
MOL Fiber Company Limited	United Kingdom	51% Directly	Wholesale of waste papers

The consolidated financial statements have been prepared on a line by line basis by adding together similar items of assets, liabilities, income and expenses. Significant inter-company transactions and balances have been eliminated.

Accounting basis

This consolidated financial statements are prepared based on the historical cost basis and the accrual basis.

Revenue recognition

Revenues from sales are recognized upon issuance of invoices and delivery of goods to customers and are stated net of trade or quantity discounts.

Expenses

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the Group'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 sales as required under accounting principles generally accepted in the Kingdom of Saudi Arabia. Allocations between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, and highly liquid investments with original maturities of three months or less.

Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of available for sale products is determined on a weighted average cost basis and includes cost of used materials and the direct production expenses in addition to a specific percentage from the indirect expenses. The cost of all the other inventories is determined on a weighted average cost basis.

Investment in companies

Investment in companies which are at least 20% owned and in which the Group exercises significant influence are recorded using the equity method, under which the investment is stated initially at cost and adjusted thereafter for the post acquisition change in the Group's share of the net assets of the investee. These are referred to as associated companies (equity share from 20%-50%). The Company's share in the investees' net income/losses for the year is included in the consolidated statement of income.

Investment in a joint project is shown at cost, it represents mainly machinery and equipment and buildings and is adjusted over a period of 15 years, the contract period. The Company's share in the joint project is based on its share which is included in the consolidated statements of income.

The carrying amount of all investments and financial instruments is reduced to recognize other than temporary diminution in value. The reduction in value is shown in the consolidated statement of income.

Non-controlling interests

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the acquisition.

Goodwill

The goodwill represents the excess of the investment cost over the Group's share in the fair value of the net assets of the subsidiary or associate at the date of acquisition and is stated at cost after adjustment for impairment (if any). The carrying amount of the goodwill is reviewed periodically to determine whether there is any indication of impairment. If any such indication exists, the goodwill is reduced to the estimated recoverable amount and an impairment loss is recognized in the consolidated statement of income. Such loss is not reversed in subsequent period/periods.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. The estimated rates of depreciation of the principal classes of assets are as follows:

Buildings and mobile cabinets	3%-17%
Machinery and equipment	5%-20%
Furniture and office fixture	17%-25%
Motor Vehicles	20%-25%

Capital work-in-progress

Capital work-in-progress represents all costs relating directly and indirectly to the projects in progress and is capitalized as property, plant and equipment when the project is completed.

Financial assets and financial liabilities

The financial assets comprise cash and cash equivalents, accounts receivables and investments. These financial assets except for investments are stated at their nominal values as reduced by an appropriate allowance for estimated irrecoverable amounts.

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include accounts payable, short-term and long-term loans and are stated at their nominal values.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each consolidated balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Certain categories of financial assets, such as accounts receivable, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced through the use of an allowance account. When a financial asset is not considered recoverable, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to the consolidated statement of income. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of income.

Impairment of non-current assets except for the goodwill

The carrying amounts of the Group's non-current assets are periodically reviewed 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 assets is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

A non-current asset is considered impaired if its carrying amount is higher than its recoverable amount. To determine impairment, the Group compares the non-current asset's carrying amount with the undiscounted estimated cash flow from the asset's use. If the carrying amount exceeds the undiscounted cash flow from the asset, the Group estimates the present value of the estimated future cash flows from the asset. The excess of the carrying amount over the present value of the estimated future cash flows from the assets is considered an impairment loss.

An impairment loss is recognized immediately in the consolidated statement of income. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 in the prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of income.

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.

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

Foreign currency translation

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 consolidated balance sheet date are translated at the exchange rate prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income.

On consolidation, the assets and liabilities of the Group's subsidiaries and associate are translated in Saudi Riyals at exchange rates prevailing on the consolidated balance sheet date. Income and expenses are translated at the average exchange rates for the period. Exchange differences arising, if material, are classified as equity and transferred to the Group's foreign currency translation reserve. Such translation differences are recognized in the consolidated statement of income in the period in which the foreign operation is disposed off.

Finance cost

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time the assets are substantially ready for their intended use. All other finance costs are recognized in the consolidated statement of income in the period in which they are incurred.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

End-of-service indemnities

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

Provisions

Provisions are recognized when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

Segmental reporting

An operating segment is a component of the Group that is engaged in business activities from which it earns revenues and incurs expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For management purposes, the Group is organized into business units based on their products and services and has two reportable operating segments as follows:

- Manufacturing, which covers producing and selling of papers.
- Trading, which covers wholesale and retail trading.

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the accompanying consolidated financial statements.

Zakat and income tax

The Company and its Saudi subsidiaries are subject to the Regulations of the Directorate of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accruals basis. The zakat charge is computed on the zakat base and income tax is computed on adjusted income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

The foreign subsidiary is subject to income tax in their respective countries. Income tax expense represents the sum of the current tax.

The tax currently payable is based on taxable income of the year. Taxable income differs from income as reported in the consolidated statement of income as it excludes items of income or expense that are taxable or deductible in future years, or expenses that are permanent and non-deductible. The subsidiary liability for the current tax is calculated using the tax rates that have been enacted by the end of the reporting period.

3. ACCOUNTS RECEIVABLE

	2011	2010
Accounts receivable - trade	**205,871,011**	119,343,898
Less: Allowance for doubtful debts	**(2,251,259)**	(2,251,259)
	203,619,752	**117,092,639**

(Expressed in Saudi Riyals)

4. INVENTORIES

	2011	2010
Spare parts and supplies, not available for sale	34,490,117	71,038,029
Raw materials	74,675,259	69,510,521
Finished goods	10,686,484	6,811,571
Less: Allowance for slow moving inventories	(3,289,334)	(3,100,000)
	116,562,526	**144,260,121**

The spare parts inventory mainly relates to the Group’s machinery and equipment which are expected to be used for more than one year.

During the year, the Group transferred part of its spare parts inventory amounting to SR 39,175,444 to the property and equipment as these are considered an integral part of the Group’s machinery and equipment and expected to be used for more than one year.

During the year, the Group wrote-off inventory amounting to SR 2,810,666.

5. PREPAID EXPENSES AND OTHER RECEIVABLES

	2011	2010
General Authority of Water (note 17)	**30,490,630**	30,490,630
Societe Marociane De Recuperation Et De Recyclage (note 6)	**3,562,500**	-
Middle East Environment Production Company (note 6)	**1,884,236**	-
Advances to suppliers	**25,563,761**	15,037,358
Employees’ advances	**1,242,999**	1,304,754
Prepaid expenses	**9,007,810**	4,569,688
Retentions	**1,231,903**	1,519,327
Others	**2,657,959**	1,764,267
	75,641,798	**54,686,024**

(Expressed in Saudi Riyals)

6. INVESTMENT IN COMPANIES

The investment in companies as of December 31 are as follows:

Name of subsidiary	Place of Incorporation	% Held (directly and indirectly)	2011	2010
Investment in a joint project (6.1)	Saudi Arabia	50%	-	78,500,929
Societe Marociane De Recuperation Et De Recyclage (6.1)	Morocco	50%	-	24,115,709
MOL Fiber Company Limited	United Kingdom	51%	-	625,398
			-	**103,242,036**

The movement of investment in companies are as follows:

	2011	2010
Balance as of January 1	**103,242,036**	106,600,006
Share of income from a joint project - net	**1,971,442**	4,031,686
Share of income from a subsidiary	**-**	678,209
Additions	**1,150,000**	1,100,193
Dividends	**(1,884,236)**	-
Sales of investments	**(98,633,539)**	-
Movement during the year	**3,596,791**	(4,789,228)
Advance payment transferred to other receivable	**(3,562,500)**	-
Adjustment and impairment	**(5,879,994)**	(4,378,830)
	-	**103,242,036**

(6.1) During the year, the Group sold its investment in Societe Marociane De Recuperation Et De Recyclage at the net book value as of date of the sale and the related advance payment was transferred to the receivables along with the sale consideration. Also, the Group sold its investment in the joint project to a related party resulting in gains of SR 366,461.

(Expressed in Saudi Riyals)

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and port cabins	Machinery and equipment	Furniture and fixture	Motor vehicles	Capital work-in-progress	Total
Cost							
January 1, 2010	59,319,884	73,275,041	473,053,470	11,448,719	19,439,388	295,534,975	932,071,477
Additions	-	1,549,352	14,656,976	1,030,577	4,605,526	110,944,027	132,786,458
Disposal	-	-	(200,279)	-	(620,122)	-	(820,401)
Transfers	-	81,321,635	324,008,067	495,011	654,289	(406,479,002)	-
December 31, 2010	**59,319,884**	**156,146,028**	**811,518,234**	**12,974,307**	**24,079,081**	**-**	**1,064,037,534**
Depreciation							
January 1, 2010	-	9,341,741	126,328,642	8,886,754	11,834,353	-	156,391,490
Additions	-	2,085,856	32,361,533	1,091,315	4,069,363	-	39,608,067
Disposal	-	-	(182,005)	-	(537,196)	-	(719,201)
Transfers	-	(239,268)	-	-	-	-	(239,268)
December 31, 2010	**-**	**11,188,329**	**158,508,170**	**9,978,069**	**15,366,520**	**-**	**195,041,088**
Net book value as of December 31, 2010	**59,319,884**	**144,957,699**	**653,010,064**	**2,996,238**	**8,712,561**	**-**	**868,996,446**
31 December 2011							
Cost							
January 1, 2011	59,319,884	156,146,028	811,518,234	12,974,307	24,079,081	-	1,064,037,534
Additions	-	2,339,033	58,210,481	2,232,237	4,670,653	230,707	67,683,111
Disposals	-	(1,836)	(1,685,770)	(7,860)	(1,562,712)	-	(3,258,178)
Transfer (note 4)	-	-	39,175,444	-	-	-	39,175,444
December 31, 2011	**59,319,884**	**158,483,225**	**907,218,389**	**15,198,684**	**27,187,022**	**230,707**	**1,167,637,911**
Depreciation							
January 1, 2011	-	11,188,329	158,508,170	9,978,069	15,366,520	-	195,041,088
Additions	-	4,225,691	46,638,645	1,365,002	4,484,014	-	56,713,352
Disposals	-	-	(861,251)	(2,585)	(1,265,763)	-	(2,129,599)
December 31, 2011	**-**	**15,414,020**	**204,285,564**	**11,340,486**	**18,584,771**	**-**	**249,624,841**
Net book value as of December 31, 2011	**59,319,884**	**143,069,205**	**702,932,825**	**3,858,198**	**8,602,251**	**230,707**	**918,013,070**

(Expressed in Saudi Riyals)

Land includes a parcel of land with a cost of SR 24.4 million registered in the name of a related party which assigned to the Group according to declaration of trust and the ownership has not been transferred to the Group until the date of these financial statements.

All land, buildings and mobile cabinet, machinery and equipment and furniture and office equipment relating to the Group are pledged as collateral to Saudi Industrials Development Fund (note 8) as a first degree pledge, to Arab National Bank as a second degree pledge and to the Islamic corporation for the Development of the Privet Sector as a third degree pledge.

8. LOANS AND BANK FACILITIES

a) Loans and bank facilities as of December 31 consist of the following:

a-1) Short-term loans and notes payable

	2011	2010
Short-term loans – see (b) below	**141,225,547**	226,287,802
Notes payable	**1,804,995**	1,118,541
	143,030,542	**227,406,343**

a-2) Long-term loans

	2011	2010
Long-term loans – see (b) below	563,026,928	453,773,340
Loan from Saudi Industrial Development Fund - see (c) below	247,060,000	226,600,000
	810,086,928	**680,373,340**
Less: current portion of long term loan	(256,445,832)	(188,731,328)
	553,641,096	**491,642,012**

b) The Group has credit facilities from several banks in financing, tayseer, short-term and long-term tawarroq. The Group utilized SR 705.8 million (2010: SR 681.7 million) out of this amount at the end of the year for financing the import of materials and equipment relating to the activities of the Group. These facilities are secured by promissory notes from the Group, personal guarantees from the shareholders of the Group and mortgage on the factory. These facilities bear interest rate between SIBOR+1.25% and SIBOR+3% and are repayable in different periods from 6 months to 6 years for each transaction.

These facilities include certain financial covenants which provide, among other items, restrictions in some ratios and require the Bank's approval before dividends distribution. The Group has not complied with certain financial covenants. However, the Group has not reclassified the long-term portion of loans as current as it believes that the bank will not call for an immediate repayment of the loans. Accordingly, the above loans balance, classified according to original terms of payment.

c) The Group signed a loan agreement with SIDF amounting to SR 255 million to partially finance the construction of the Group's manufacturing facilities, the Group utilized SR 247 million (2010: SR 227 million) as of December 31, 2011. The repayment of the outstanding balance as of December 31, 2009 will be in unequal semi-annual installments ending May 2017. Under the terms of the SIDF loan agreement, the Group's property, plant and equipment are pledged as collateral to the SIDF (see Note 7). The SIDF loans are also guaranteed by the shareholders. The SIDF loan agreement includes, among other things, certain covenants related to the maintenance of certain financial ratios, distribution of dividends, maximum rental charges and maximum capital expenditures. The Group has not complied with certain financial covenants. The management believes that the SIDF will not take any action in relation to that. Accordingly, the above loans balances were classified according to original terms of payment.

(Expressed in Saudi Riyals)

d) Long-term loans are repayable as follows:

Due date	2011	2010
2011 *	-	188,731,328
2012	256,445,832	204,700,332
2013	210,372,750	101,833,334
2014	110,166,664	60,166,664
2015	100,041,682	46,041,682
2016	94,000,000	44,000,000
2017	39,060,000	34,900,000
	810,086,928	680,373,340

* On 23 Dhul-Hijjah, 1432 (November 19, 2011), the Group applied to the SIDF to reschedule an installment in 2011 to be SR 5,700,000 instead of SR 35,700,000, the SIDF approved that and recalculated the installments accordingly. Therefore, the current portion of long-term debt as of December 2010 became SR 159,865,996 instead of SR 189,865,996.

9. ACCRUED EXPENSES AND OTHER LIABILITIES

	2011	2010
Accrued expenses	20,634,835	11,393,401
Zakat and income tax (note 10)	734,097	979,885
Others	202,370	2,443,798
	21,571,302	14,817,084

10. ZAKAT AND INCOME TAX

The Group's zakat charge has been computed based on the separate financial statements of the Company and its subsidiaries.

The principal elements of the Group zakat base are as follows:

	2011	2010
Non-current assets	918,013,070	972,238,482
Non-current liabilities	564,100,273	500,359,751
Opening shareholders' equity	343,036,682	232,713,301
Net income before zakat	86,584,189	81,291,043

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

(Expressed in Saudi Riyals)

The movement in zakat and income tax provision is as follows:

	2011	2010
January 1	979,885	400,000
Provision for the year	795,166	649,664
Paid during the year	(1,040,954)	(69,779)
December 31	**734,097**	**979,885**

Outstanding assessments:

The Company has received zakat assessments amounting to SR 12.8 million related to 2006, 2007 and 2008. The Company has appealed such assessments and management believes that no material liability will arise upon the finalization of the assessments. Accordingly, no provision for such additional zakat has been made in the accompanying financial statement. The Company has not yet received the final assessment from the DZIT for the year 2009 and 2010.

11. END-OF-SERVICE INDEMNITIES

	2011	2010
January 1	8,717,739	5,800,584
Provision for the year	2,508,003	3,202,036
Payments during the year	(766,565)	(284,881)
December 31	**10,459,177**	**8,717,739**

12. SHARE CAPITAL

The shareholders resolved to increase share capital of the Company by SR 160 million in 2008, SR100 million in 2010 and SR 40 million in 2011 through transfers from shareholders' accounts and retained earnings. Also the shareholders resolved to admit two shareholders through transfers of part of their interest in the Company to the admitted shareholders.

The share capital of the Company as of December 31 2011 was comprised 360,000 shares (2010 - 220,000 Shares) valued at SR 1000 par value owned as follows:

Shareholder	Percentage of Ownership		Amount	Amount
	2011	2010	2011	2010
A.K Al-Muhaidib and Sons Company (AKMS)	35.32%	40.27%	127,152,000	88,594,000
Ibrahim Abdullah Abu Nayyan and Brothers Company	35.32%	40.27%	127,152,000	88,594,000
Mr. Abdullah A. Bin Al-Moammar	19.46%	19.46%	70,056,000	42,812,000
Mr. Emad Abdel Kader Al-Muhaidib	4.95%	-	17,820,000	-
Mr. Abdulelah Abu Nayyan	4.95%	-	17,820,000	-
	100%	**100%**	**360,000,000**	**220,000,000**

Legal formalities to effect these changes were approved by the Ministry of Commerce and Industry.

(Expressed in Saudi Riyals)

13. 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.

14. SELLING AND DISTRIBUTION EXPENSES

	2011	2010
Salaries and related benefits	3,387,886	3,531,640
Transportation and shipping	22,032,223	19,032,931
Sales commissions	2,115,614	1,721,489
Repairs and maintenance	1,218,749	750,215
Depreciation	301,030	257,565
Freight and carriage	1,203,778	-
Others	643,334	857,711
	30,902,614	26,151,551

15. GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
Salaries and related benefits	19,828,785	13,615,581
Depreciation	2,368,618	2,772,626
Professional fees	2,657,552	186,821
Repairs and maintenance	470,596	672,030
Communications	649,452	480,261
Allowance for doubtful debts	-	2,250,000
Travel expenses	1,092,378	423,725
Insurance expenses	553,835	501,030
Rent	376,980	68,653
Subscriptions	219,811	249,615
Feasibility study	994,780	919,101
Training	761,248	562,569
Stationary	444,876	174,036
Governmental fees	501,731	431,716
Bank charges	665,703	412,851
Others	1,594,277	2,413,118
	33,180,622	26,133,733

16. OPERATING LEASE ARRANGEMENTS

	2011	2010
Payments under operating leases recognized as an expense during the year	**4,801,863**	**3,660,268**

Operating lease payments represent rentals payable by the Company for some properties, which are renewed annually.

17. CONTINGENCIES AND COMMITMENTS

As of Group's 31, the Company has the following contingencies and commitments:

	2011	2010
Letters of credit	**27,820,360**	2,822,349
Capital commitments	**-**	**2,822,349**

During 2008, the General Authority of Water (GAW) expropriated a lot of land and other premises that belonged to the Company and unfairly compensated the Company for SR 28.9 million. The Group contested the compensation and raised a claim in which it claimed the compensation to be in line with the fair value of the lot. Later on, the Group obtained a court ruling ordering the GAW to pay SR 80.2 million, which was not accepted by GAW.

The Group raised the case to an Appeal Committee where the appeal is still in process. The management of the Group is certain that the ultimate outcome will be in their favor and gains or losses will be recognized when the outcome of the claim is fully determined

18. RISK MANAGEMENT

The Group's exposure to the risks and its approach to managing these risks are discussed below:

a) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rate will affect the value of the financial instruments. The Group is exposed to floating interest rate on its debts and Murabahas and does not hedging such risk.

b) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. The Group manages its liquidity risk by maintaining an adequate balance of cash and cash equivalents and obtaining bank facilities.

c) Currency risk

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies.

Most of the Group's sales are in Saudi Riyals whereas purchases are mainly incurred in United States Dollars. Saudi Riyal is pegged with United States Dollars, hence the Group is not significantly exposed to currency risk.

(Expressed in Saudi Riyals)

19. RELATED PARTY TRANSACTIONS

During the year, the Group transacted with the following related party:

Name	Relationship
Beatona Company	Affiliate

The significant transactions and related amounts are as follows:

	2011	2010
Sale of investments	**99,000,000**	**-**

Due from a related party as of December 31, 2011 represent the amount due from Beatona Company.

20. SEGMENT DETAILS

The Group's principal activities involve manufacturing and trading. The assets, liabilities, revenues and net income of the Company and its subsidiaries classified under the business segment as at and for the year ended as follows:

2011	Manufacturing Segment	Trading Segment	Elimination	Total
Assets	1,403,329,784	83,837,310	(39,899,393)	**1,447,267,701**
Liabilities	972,097,778	54,554,009	(10,657,863)	**1,015,993,924**
Revenue	594,940,064	275,560,397	(219,665,170)	**650,835,291**
Net income to the equity shareholders	**85,747,824**	**28,382,718**	**(28,382,718)**	**85,747,824**

2010	Manufacturing Segment	Trading Segment	Elimination	Total
Assets	1,206,312,057	140,224,540	(40,314,586)	**1,306,222,011**
Liabilities	863,275,375	114,941,508	(15,022,554)	**963,194,329**
Revenue	436,107,282	187,364,003	(152,408,078)	**471,063,207**
Net income	**80,641,379**	**22,836,779**	**(22,836,779)**	**80,641,379**

21. FAIR VALUE

The fair value of the Group's financial assets and liabilities, except for the investments in companies, approximate their carrying amounts.

22. COMPARATIVE FIGURES

Certain figures for 2010 have been reclassified to conform with the presentation for the current year.