

UNITED ELECTRONICS COMPANY
(SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2011

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

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AUDITORS' REPORT

To the stockholders
United Electronics Company
Al Khobar, Saudi Arabia

Scope of Audit

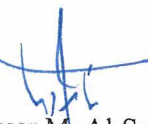
We have audited the balance sheet of United Electronics Company (a Saudi Joint Stock Company) as of December 31, 2011 and the related statements of income, stockholders' equity and cash flows for the year then ended, and notes 1 to 21 which form an integral part of these financial statements as prepared 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 in the Kingdom of Saudi Arabia. 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, 2011 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia 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.

Deloitte & Touche
Bakr Abulkhair & Co.


Nasser M. Al-Sagga
License No. 322
1 Rabi I, 1433
January 24, 2012



UNITED ELECTRONICS COMPANY
(SAUDI JOINT STOCK COMPANY)

BALANCE SHEET
AS OF DECEMBER 31, 2011

	Note	2011 SR	2010 SR
ASSETS			
Current assets			
Cash and cash equivalents	3	64,575,855	30,225,095
Trade receivable		5,319,318	7,480,404
Due from a related party	12	3,102,332	-
Inventories	4	340,834,458	256,603,080
Prepayments and other debit balances	5	43,346,517	30,161,410
Total current assets		457,178,480	324,469,989
Non-current assets			
Investments in subsidiaries	6	797,000	297,000
Property and equipment	7	317,080,974	266,957,607
Total non-current assets		317,877,974	267,254,607
TOTAL ASSETS		775,056,454	591,724,596
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Medium term loan - current portion	10	-	6,153,846
Trade payables and other liabilities	9	369,717,448	309,149,308
Total current liabilities		369,717,448	315,303,154
Non-current liabilities			
Medium term loan	10	-	12,307,692
Deferred revenue		9,392,109	6,745,326
End-of-service indemnities	13	20,599,333	14,101,241
Total non-current liabilities		29,991,442	33,154,259
Stockholders' equity			
Share capital	1	240,000,000	240,000,000
Statutory reserve	1,14	16,475,057	3,267,019
Retained earnings		118,872,507	164
Total stockholders' equity		375,347,564	243,267,183
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		775,056,454	591,724,596

The accompanying notes form an integral part of these financial statements

UNITED ELECTRONICS COMPANY
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STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2011

	Note	2011 SR	2010 SR
Revenue	12,15	2,461,510,481	1,778,382,259
Cost of revenue	12	2,026,238,040	1,456,290,204
Gross profit		435,272,441	322,092,055
Selling and distribution expenses	12,16	215,961,656	157,157,131
General and administrative expenses	17	83,401,019	65,501,730
Operating income		135,909,766	99,433,194
Finance charges	8,10	(661,520)	(4,366,351)
Finance income	12	77,778	4,194,094
Gain on sale of investment in an associate		-	522,046
Other income, net		137,560	284,549
Net income before zakat		135,463,584	100,067,532
Zakat	11	(3,383,203)	(2,336,941)
NET INCOME		132,080,381	97,730,591
Earnings per share - note 18			
Earnings per share from net income		5.50	4.07
Earnings per share from continuing main operations		5.49	3.86
Earnings per share from other operations		0.01	0.21
Weighted average number of shares		24,000,000	24,000,000

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, 2011

	Note	Share capital SR	Statutory reserve SR	Retained earnings SR	Total SR
January 1, 2010		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	14	-	9,773,059	(9,773,059)	-
Transferred to share capital	1	140,000,000	(11,059,700)	(128,940,300)	-
December 31, 2010		240,000,000	3,267,019	164	243,267,183
Net income for year		-	-	132,080,381	132,080,381
Transferred to statutory reserve	14	-	13,208,038	(13,208,038)	-
December 31, 2011		240,000,000	16,475,057	118,872,507	375,347,564

The accompanying notes form an integral part of these financial statements

UNITED ELECTRONICS COMPANY
(SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

	2011 SR	2010 SR
OPERATING ACTIVITIES		
Net income before zakat	135,463,584	100,067,532
Adjustments for:		
Depreciation	22,049,925	18,822,407
Finance charges	661,520	4,366,351
Finance income	(77,778)	(4,194,094)
Gain on sale of investment in an associate	-	(522,046)
Provision for doubtful debts	-	1,340,383
Gain on disposal of property and equipment	-	(140,089)
End-of-service indemnities	7,196,888	4,975,594
Changes in operating assets and liabilities:		
Trade receivables	2,161,086	8,730,197
Inventories	(84,231,378)	(50,985,301)
Prepayments and other debit balances	(13,185,107)	4,354,023
Trade payables and other liabilities and deferred revenue	62,588,681	(95,010,446)
Cash from (used in) operations	132,627,421	(8,195,489)
End-of-service indemnities paid	(698,796)	(609,385)
Finance charges paid	(661,520)	(4,657,499)
Zakat paid	(2,756,961)	(1,334,941)
Net cash from (used in) operating activities	128,510,144	(14,797,314)
INVESTING ACTIVITIES		
Additions to property and equipment	(72,178,952)	(115,368,300)
Finance income received	77,778	4,194,094
Proceeds from disposal of property and equipment	5,660	336,984
Proceeds from sale of investment in an associate	-	2,690,926
Investment in a subsidiary	(500,000)	(297,000)
Net cash used in investing activities	(72,595,514)	(108,443,296)
FINANCING ACTIVITIES		
Due to banks	-	(68,000,000)
Medium term loans obtained	-	20,000,000
Repayment of medium term loan	(18,461,538)	(4,278,575)
Due from related parties	(3,102,332)	191,054,235
Net cash (used in) from financing activities	(21,563,870)	138,775,660
Net change in cash and cash equivalents	34,350,760	15,535,050
Cash and cash equivalents, January 1	30,225,095	14,690,045
CASH AND CASH EQUIVALENTS, DECEMBER 31	64,575,855	30,225,095

The accompanying notes form an integral part of these financial statements

UNITED ELECTRONICS COMPANY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

1. ORGANIZATION AND ACTIVITIES

United Electronics Company (“the Company”) is a Saudi 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 10 Jumada II, 1425H (July 27, 2004).

In 2009, the shareholders of the Company resolved to convert the Company from a Limited Liability Company to a 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.

In 4th Quarter of year 2010, 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 year 2010.

As of December 31, 2011, the Company’s share capital is SR 240 million divided in to 24 million shares of SR 10 each.

On October 30, 2011, the Capital Market Authority (CMA) accepted the application of the Company for initial public offering of 7.2 million shares at SR 55 per share with the subscription period from December 5, 2011 to December 11, 2011. From December 24, 2011, the shares of the Company have been listed at Saudi Stock Exchange.

The Company’s principal activities are the retail and wholesale of electrical and electronic devices and tools, computers and mobile phones 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.

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
Dammam Faisalya	2050078151
Jeddah – Old Airport	4030189019

UNITED ELECTRONICS COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

<u>City</u>	<u>CR number</u>
Riyadh – Khurais	1010283056
Riyadh – Al Raed	1010300686
Tabok	3550026190
Makkah	4031060798
Riyadh – Al Remal	1010300685
Riyadh – Oraiga	1010307790
Hafer El Batin	2511013237
Najran	5950018934
Jeddah – Al Tahlya	4030219680
Al-Kharj	1011016109
Jubail	2055014762

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in compliance with the accounting standards in the Kingdom of Saudi Arabia 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 whereby 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.

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.

UNITED ELECTRONICS COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

Investment in subsidiaries

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 subsidiaries are 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.

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.

Provision 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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

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 charged to the statement of income. The zakat charge is computed on the zakat base or adjusted net income, whichever is higher. 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 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, 2011 and 2010, cash and cash equivalents consist entirely of cash and bank balances.

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

	2011	2010
	SR	SR
Prepaid rent	21,038,076	16,397,912
Advances to suppliers	10,181,798	5,815,772
Receivable from employees	4,745,731	4,507,663
Prepaid insurance	1,967,164	1,297,017
Other prepaid expenses	5,413,748	2,143,046
	43,346,517	30,161,410

UNITED ELECTRONICS COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

6. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries include equity interest of 99% in United Electronics Maintenance and Computer Company, a Saudi limited liability company, incorporated on 10 Rajab 1431H (June 22, 2010). The principal activities of this 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, printers and computer related devices.

Investments in subsidiaries also include equity interest of 100 % in United Electronics Company-Extra S.P.C registered in Bahrain on 15 Dhul-Qa'da 1432H (October 13, 2011). The principal activities of this subsidiary are importing, exporting and trading for electrical and electronics devices and their spare parts and for computers and their supplies, selling visual and vocal medial materials, importing and exporting computer related programs and systems, importing and exporting for electric games, providing maintenance for electric devices in addition to the management and development of personal properties.

As the Subsidiaries have not commenced operations upto December 31, 2011 and the Subsidiaries were determined to be immaterial and accordingly, financial statements for the period ended December 31, 2011 were not consolidated.

7. PROPERTY AND EQUIPMENT

	Land	Buildings and leasehold improvements	Furniture, fixtures and office equipment	Vehicles	Capital work-in- progress	Total
	SR	SR	SR	SR	SR	SR
Cost						
January 1, 2011	81,661,482	129,122,231	111,583,457	8,390,820	14,483,435	345,241,425
Additions	-	17,909,931	19,171,124	-	35,097,897	72,178,952
Transfers	-	27,313,157	16,034,836	2,223,065	(45,571,058)	-
Disposals	-	-	(10,599)	-	-	(10,599)
December 31, 2011	81,661,482	174,345,319	146,778,818	10,613,885	4,010,274	417,409,778
Depreciation						
January 1, 2011	-	18,351,462	55,603,453	4,328,903	-	78,283,818
Charge for year	-	5,557,169	15,194,203	1,298,553	-	22,049,925
Disposals	-	-	(4,939)	-	-	(4,939)
December 31, 2011	-	23,908,631	70,792,717	5,627,456	-	100,328,804
Net book value						
December 31, 2011	81,661,482	150,436,688	75,986,101	4,986,429	4,010,274	317,080,974
December 31, 2010	81,661,482	110,770,769	55,980,004	4,061,917	14,483,435	266,957,607

Some of the Company's buildings located in different cities of Kingdom of Saudi Arabia are leased for a period ranging from 5 to 20 years.

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

8. 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 Islamic Shariah principles.

9. TRADE PAYABLES AND OTHER LIABILITIES

	2011 SR	2010 SR
Trade payables	268,515,201	249,763,967
Deferred revenue – current portion	10,496,578	9,360,622
Accrued bonus	15,558,387	12,002,076
Advances from customers	23,393,758	16,764,669
Zakat (note 11)	3,128,242	2,502,000
Others	48,625,282	18,755,974
	<u>369,717,448</u>	<u>309,149,308</u>

10. MEDIUM TERM LOAN

In 2010, the Company obtained medium term loan from a local bank. The loan is repayable in thirteen equal quarterly payments starting from December 31, 2010. During the year, the loan was fully repaid.

11. ZAKAT

The principal elements of the zakat base are as follows:

	2011 SR	2010 SR
Non-current assets	317,877,974	267,254,607
Non-current liabilities	29,991,442	33,154,259
Opening stockholders' equity	243,267,183	145,536,592
Net income before zakat	135,463,584	100,067,532

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

The movement in zakat is as follows:

	2011 SR	2010 SR
January 1	2,502,000	1,500,000
Provision for the year	3,128,242	2,502,000
Under (over) provision in previous year	254,961	(165,059)
Paid during the year	<u>(2,756,961)</u>	<u>(1,334,941)</u>
December 31	<u>3,128,242</u>	<u>2,502,000</u>

UNITED ELECTRONICS COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

The charge for the year for zakat is as follows:

	2011 SR	2010 SR
Zakat for the current year	3,128,242	2,502,000
Under (over) provision in previous year	254,961	(165,059)
Charged to statement of income	<u>3,383,203</u>	<u>2,336,941</u>

Outstanding assessments

The Company has submitted its zakat returns up to year ended December 31, 2010, settled zakat due as per the return and obtained required certificates and official receipts. The assessments related to the year 2004 and 2005 were received during the year. The final zakat assessment for the years 2006 to 2010 are under process by the DZIT.

12. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company transacts with related parties, terms of these transactions are approved by the management.

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

Name	Relationship
Al Fozan group of companies	Stockholder/affiliates
Abdulaziz Alsaghyir Commercial Investment Company	Stockholder
United Electronics Company-Extra S.P.C Bahrain	Subsidiary
Digital & Electronic Solutions Development Company ("DESD")	Affiliate

Significant transactions and the related amounts are as follows:

	2011 SR	2010 SR
Land purchased	-	26,440,087
Sales	(1,147,491)	(970,731)
Purchases	61,876,975	14,178,656
Interest charged to a related party	-	(4,194,094)
Rent of land	2,877,974	2,707,724
Rental income	(858,567)	(900,000)

Due from a related party as of December 31, 2011 represents amount due from United Electronics Company-Extra S.P.C Bahrain.

13. END-OF-SERVICE INDEMNITIES

	2011 SR	2010 SR
January 1	14,101,241	9,735,032
Provision for year	7,196,888	4,975,594
Payments during year	(698,796)	(609,385)
December 31	<u>20,599,333</u>	<u>14,101,241</u>

UNITED ELECTRONICS COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

14. 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.

15. REVENUE

	2011	2010
	SR	SR
Sales	2,365,611,519	1,705,929,449
Services, rental and other operating income (note 19)	95,898,962	72,452,810
	<u>2,461,510,481</u>	<u>1,778,382,259</u>

16. SELLING AND DISTRIBUTION EXPENSES

	2011	2010
	SR	SR
Salaries, wages and employees benefits	93,950,261	67,311,702
Advertising and other related cost	35,178,827	24,989,970
Rent	33,941,563	23,239,718
Depreciation	17,622,673	14,819,702
Utilities	15,906,934	12,870,579
Repair and maintenance	3,490,213	2,616,608
Travel and accommodation	844,209	474,158
Others	15,026,976	10,834,694
	<u>215,961,656</u>	<u>157,157,131</u>

17. GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
	SR	SR
Salaries, wages and employees benefits	57,835,987	48,088,062
Depreciation	4,427,252	4,002,705
Travel, accommodation and communications	2,703,689	2,128,806
Legal and consultancy	5,011,518	2,008,774
Rent	237,840	237,840
Utilities, printing and stationary	2,345,464	1,359,198
Repair and maintenance	2,800,467	1,169,153
Doubtful debts	-	1,340,383
Others	8,038,802	5,166,809
	<u>83,401,019</u>	<u>65,501,730</u>

**UNITED ELECTRONICS COMPANY
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011**

18. EARNINGS PER SHARE

Earnings per share from net income are computed by dividing net income for the year by the weighted average number of shares outstanding during the year.

Earnings per share from the continuing main operations is computed by dividing the operating income less finance charges and zakat for the year by the weighted average number of shares outstanding during the year.

Earnings per share from other operations is computed by dividing the finance income, gain on sale of investment in associate and other income, net for the year by the weighted average number of shares outstanding during the year.

19. OPERATING LEASE ARRANGEMENTS

The Company as lessee

	<u>2011</u> SR	<u>2010</u> SR
Payments under operating leases recognized as an expense during the year	<u>34,179,403</u>	<u>23,477,558</u>

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 are as follows:

	<u>2011</u> SR	<u>2010</u> SR
Year 1	38,189,701	33,119,925
Year 2	37,190,510	31,184,592
Year 3	37,297,592	27,720,793
Year 4	37,230,258	27,553,189
Year 5 and after	439,796,247	355,975,192

The 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, 2011 under such leases amounted to approximately SR 2.1 million (2010: SR 2.8 million).

20. CONTINGENCIES AND COMMITMENTS

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

	<u>2011</u> SR	<u>2010</u> SR
Letters of guarantee	<u>26,401,275</u>	<u>3,694,193</u>
Letters of credit	<u>140,945,105</u>	<u>96,547,624</u>

21. FAIR VALUES

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