

**FAWAZ ABDULAZIZ AL HOKAIR & CO.**  
**(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND  
AUDITORS' REPORT  
FOR THE YEAR ENDED MARCH 31, 2011**

**FAWAZ ABDULAZIZ AL HOKAIR & CO.**  
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED FINANCIAL STATEMENTS AND  
AUDITORS' REPORT  
FOR THE YEAR ENDED MARCH 31, 2011**

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## AUDITORS' REPORT

To the shareholders  
Fawaz Abdulaziz Al Hokair & Co.  
(a Saudi joint stock company)  
Riyadh, Saudi Arabia

### Scope of Audit

We have audited the accompanying consolidated balance sheet of Fawaz Abdulaziz Al Hokair & Co. (a Saudi joint stock company) (the "Company") as at March 31, 2011 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 27 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and submitted 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 standards used and significant estimates made by management, as well as evaluating the overall consolidated financial statements 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 as at March 31, 2011, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted 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 bylaws of the Company as these relate to the preparation and presentation of these consolidated financial statements.

Deloitte & Touche  
Bakr Abulkhair & Co.



Husam H. Sadagah  
Certified Public Accountant  
License No. 73

Jumada Awwal 29, 1432  
May 3, 2011

Audit . Tax . Consulting . Financial Advisory.

Member of  
Deloitte Touche Tohmatsu

FAWAZ ABDULAZIZ AL HOKAIR & CO.  
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET  
AS AT MARCH 31, 2011

	Note	2011 SR	2010 SR
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	3	107,325,209	76,795,990
Inventories, net	4	598,552,027	476,129,215
Prepayments and other assets	5	297,773,971	154,640,844
Due from related parties	6	132,327,814	150,862,149
<b>Total current assets</b>		<b>1,135,979,021</b>	<b>858,428,198</b>
<b>Non-current assets</b>			
Due from related parties	6	58,591,026	24,621,659
Investments	7	219,006,864	235,913,749
Investment property, net	8	-	23,757,579
Property and equipment, net	9	613,196,531	605,294,271
Goodwill		61,437,764	61,437,764
Other intangible assets, net	11	81,140,321	77,815,531
<b>Total non-current assets</b>		<b>1,033,372,506</b>	<b>1,028,840,553</b>
<b>TOTAL ASSETS</b>		<b>2,169,351,527</b>	<b>1,887,268,751</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Short-term Murabaha financing and loans	12	85,902,670	70,000,000
Current portion of Murabaha financing and loans	12	75,000,000	-
Trade payables		285,309,411	149,517,028
Accrued expenses and other liabilities	13	330,501,793	218,969,941
Due to a related party	6	-	640,210
<b>Total current liabilities</b>		<b>776,713,874</b>	<b>439,127,179</b>
<b>Non-current liabilities</b>			
Murabaha financing and loans	12	225,000,000	300,000,000
End-of-service indemnities		41,810,205	37,926,217
<b>Total non-current liabilities</b>		<b>266,810,205</b>	<b>337,926,217</b>
<b>EQUITY</b>			
<b>Shareholders' equity</b>			
Share capital	1	700,000,000	700,000,000
Statutory reserves	15	144,435,623	112,888,449
Retained earnings		250,383,594	281,459,032
<b>Total shareholders' equity</b>		<b>1,094,819,217</b>	<b>1,094,347,481</b>
Minority interest		31,008,231	15,867,874
<b>Total equity</b>		<b>1,125,827,448</b>	<b>1,110,215,355</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,169,351,527</b>	<b>1,887,268,751</b>

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

**CONSOLIDATED STATEMENT OF INCOME  
FOR THE YEAR ENDED MARCH 31, 2011**

	Note	2011 SR	2010 SR
Retail sales		2,574,608,385	2,074,389,246
Cost of sales		(1,435,476,323)	(1,131,838,713)
<b>Gross profit</b>		<b>1,139,132,062</b>	<b>942,550,533</b>
Selling and marketing expenses	16	(688,936,746)	(567,867,026)
General and administrative expenses	17	(86,075,116)	(56,219,829)
Depreciation and amortization	7,8,9 & 11	(102,185,831)	(77,518,331)
<b>Operating income</b>		<b>261,934,369</b>	<b>240,945,347</b>
Equity losses in associates	7	(17,441,749)	(30,000,000)
Finance charges		(16,404,674)	(12,794,200)
Other income, net	18	106,681,343	44,717,010
<b>Income before zakat and income tax and minority interest</b>		<b>334,769,289</b>	<b>242,868,157</b>
Zakat and foreign income tax	14	(15,088,839)	(11,359,456)
<b>Income before minority interest</b>		<b>319,680,450</b>	<b>231,508,701</b>
Minority interest		(4,208,714)	(8,244)
<b>NET INCOME</b>		<b>315,471,736</b>	<b>231,500,457</b>
<b>Earnings per share (in Saudi Riyals):</b>			
From operating income	21	3.74	3.44
From net income	21	4.51	3.31

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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2011**

	2011 SR	2010 SR
<b>OPERATING ACTIVITIES</b>		
Income before zakat and income tax and minority interest	334,769,289	242,868,157
Adjustments for:		
Depreciation and amortization	102,185,831	77,518,331
Provision for end-of-service indemnities	7,258,581	7,534,062
Equity losses in associates	17,441,749	30,000,000
Income on sale of investment property	(12,383,836)	-
Dividend income	(55,036,557)	-
Changes in operating assets and liabilities:		
Inventories, net	(99,913,697)	(46,011,116)
Prepayments and other assets	(160,988,884)	(21,359,907)
Due from/to related parties, net	(16,075,242)	(18,177,377)
Trade payables	106,167,653	(8,451,933)
Accrued expenses and other liabilities	55,736,784	32,741,590
<b>Cash from operations</b>	<b>279,161,671</b>	<b>296,661,807</b>
End-of-service indemnities paid	(3,374,593)	(609,933)
Zakat paid	(3,637,140)	-
<b>Net cash from operating activities</b>	<b>272,149,938</b>	<b>296,051,874</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of subsidiaries (Note 10(a))	-	(79,784,795)
Investments in an associates and others	(5,534,864)	(18,000,000)
Proceed from disposal of investment property	36,000,000	-
Dividend received	31,494,737	-
Purchase of property and equipment, net	(63,148,944)	(148,413,410)
Other intangible assets, net	(8,290,915)	(1,981,684)
<b>Net cash used in investing activities</b>	<b>(9,479,986)</b>	<b>(248,179,889)</b>
<b>FINANCING ACTIVITIES</b>		
Dividends paid (note 19)	(260,529,000)	-
Murabaha financing and loans	15,902,670	-
Minority interest	9,071,062	(1,851,469)
<b>Net cash used in financing activities</b>	<b>(235,555,268)</b>	<b>(1,851,469)</b>
<b>Net change in cash and bank balances</b>	<b>27,114,684</b>	<b>46,020,516</b>
Cash and bank balances, beginning of the year	76,795,990	24,215,711
Cash and bank balances from acquired subsidiaries (Note 10)	3,414,535	6,559,763
<b>CASH AND BANK BALANCES, END OF THE YEAR</b>	<b>107,325,209</b>	<b>76,795,990</b>
<b>Non-cash transactions:</b>		
Dividends payable (Note 13)	54,471,000	-
Acquisition of subsidiaries through related party balances under prepayments and other assets (Note 10 (a))	48,320,954	-
Dividend receivable adjusted against accrued expenses and other liabilities	20,384,876	-
Dividend receivable	3,156,944	-
Amount payable for cost of acquisition	-	2,991,411
Advance against investment in subsidiary transferred to investment in consolidated subsidiary	-	138,541,103

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

**FAWAZ ABDULAZIZ AL HOKAIR & CO.**  
**(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED MARCH 31, 2011**

	Note	Share capital SR	Statutory reserve SR	Retained earnings SR	Total SR
April 1, 2009		700,000,000	89,738,403	73,108,621	862,847,024
Net income for the year		-	-	231,500,457	231,500,457
Transfer to statutory reserve	15	-	23,150,046	(23,150,046)	-
March 31, 2010		700,000,000	112,888,449	281,459,032	1,094,347,481
Net income for the year		-	-	315,471,736	315,471,736
Transfer to statutory reserve	15	-	31,547,174	(31,547,174)	-
Dividends	19	-	-	(315,000,000)	(315,000,000)
March 31, 2011		<b>700,000,000</b>	<b>144,435,623</b>	<b>250,383,594</b>	<b>1,094,819,217</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2011**

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**1. ORGANIZATION AND ACTIVITIES**

Fawaz Abdulaziz Al Hokair & Company (the Company) is registered in Riyadh under commercial registration No. 1010076209 dated Sha'ban 20, 1410 H (corresponding to March 18, 1990).

The Company's share capital amounted to SR 700 million divided into 70 million shares of SR 10 each.

The objectives of the Company as per its bylaws are to engage in the following activities:

- Wholesale and retail trading in ready-made cloth for men, women and children, shoes, textiles, house and office furniture, perfumes, natural cosmetics, ornaments and beauty materials and their compounds and traditional jewelry.
- Wholesale and retail trading in sports wares and shoes and their complementaries.
- Management and operation of optics centers, wholesale and retail trading in eye glasses and sun glasses, contact lenses, optical equipment and accessories.
- Trading agencies.
- Purchase of land and construction of buildings thereon for the purpose of running the Company's activities and business.
- Manufacture, wholesale and retail in Ibayas, robes, torah and other women embroidered gowns.
- Wholesale and retail trading in gold, silver, jewelry, precious stones, diamonds, gold ornaments and precious metals.
- Wholesale and retail trading in communication equipment and related accessories and spare parts, maintenance and operation through trading agencies.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED MARCH 31, 2011**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

The accompanying consolidated financial statements have been prepared in accordance with the Accounting Standards generally accepted 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 consolidated financial statements are prepared under the historical cost convention except for investment in associates which are accounted under the equity method.

**Use of estimates**

The preparation of consolidated financial statements in conformity with generally accepted accounting standards requires use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual result ultimately may differ from those estimate.

**Basis of consolidation**

The consolidated financial statements include the financial statements of Fawaz Abdulaziz Al Hokair & Co. and the following subsidiaries:

	2011			2010
	Direct	Indirect*	Total	Total
i) Al Waheedah Equipment Co. Ltd.	95%	5%	100%	100%
ii) Haifa B. Al Kalam & Partners International Co. for Trading	95%	5%	100%	100%
iii) Saudi Retail Co. Ltd.	95%	5%	100%	100%
iv) Wahba Trading Company Limited	95%	5%	100%	100%
v) Retail Group Egypt (Note 10)	98%	-	98%	-
vi) Retail Group Jordan (Note 10)	95%	-	95%	-
vii) Retail Group Kazakhstan	85%	-	85%	85%
viii) Al Farida Trading Agencies Company	70%	-	70%	70%

\* Indirect ownership represents cross ownership among the subsidiary companies.

All significant inter-company balances and transactions have been eliminated on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED MARCH 31, 2011**

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**Revenue recognition**

Revenue from sales is recognized when goods are delivered and invoices are issued to customers.

Dividend income is recognized when dividends are declared.

**Leasing**

Rental income under operating leases are recognized in income on a straight line basis over the term of the operating lease.

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

**Expenses**

Selling and marketing expenses principally comprise of costs incurred in the distribution and sale of the Company's goods. 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 generally accepted accounting standards. Allocations between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

**Inventories**

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

**Investments**

*Investments in associates*

Investments in associated companies in which the Company has equity interest between 20% to 50% or 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 changes in the net assets of the investee companies. The Company's equity in the net income or loss of the associate companies is included in the consolidated statement of income.

*Available for sale investment*

Available for sale investment is stated at fair value, and changes in fair value thereon are included in shareholder's equity. Where the fair value is not readily determinable, such financial instruments are stated at cost less allowance for impairment in value, if any.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED MARCH 31, 2011

**Musharika venture**

Investment in Galleria Mall is classified as investment in musharika venture amortized over the period of 19 years being the legal term life of the investment effective from April 2010.

**Others**

Investments less than 20 % for which there is no readily available market are stated at cost. The carrying amount of investments is reduced to recognize other than temporary diminution in value.

**Investment properties**

Investment properties are reflected at cost less accumulated depreciation and reviewed annually for any decline in the value of the investment. Depreciation on investment properties is charged over the estimated useful life of the investment property on a straight line method using a depreciation rate of 3% per year. Gains from these investments are reported upon the sale of investment. Income from lease of such properties is recognized in the consolidated statement of income.

**Property and equipment**

Property 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. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease.

The estimated rates of depreciation of the principal classes of assets are as follows:

	<u>Percentage</u>
Buildings	3%
Leasehold improvements	12.5%
Furniture and office equipment	10% - 25%
Motor vehicles	25%

**Goodwill**

Goodwill arising from the investment in subsidiary represents the excess of the cost of acquisition over the Company's interests in the fair value of the net assets of the subsidiary at the date of acquisition. The carrying amount of the goodwill is reviewed annually to determine whether there is any indication of impairment. If any such indication exists the carrying amount of goodwill is reduced to the estimated recoverable amount. Goodwill after initial recognition is measured at cost less accumulated impairment losses, if any.

**Other intangible assets**

Intangible assets represent software implementation cost (oracle project), key money, trade mark and other deferred charges (brand acquisition cost and other software costs), and are amortized using the straight-line method over the expected period of benefit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED MARCH 31, 2011

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The estimated period of amortization of the principal classes of intangible assets is as follows:

	<u>Year</u>
Software implementation cost	25
Key money	10
Deferred charges	4

Trademarks are not subject to amortization. These are tested for impairment on an yearly basis.

#### **Impairment**

The Company reviews annually the carrying amounts of its tangible and intangible assets 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).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss, other than goodwill, subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognized as income immediately.

#### **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 rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income.

Assets and liabilities of the consolidated subsidiaries denominated in foreign currencies have been translated into Saudi Riyals at exchange rates prevailing at the balance sheet date. Revenues and expenses of the consolidated subsidiaries denominated in foreign currencies have been translated into Saudi Riyal at average exchange rates during the year. Exchange differences arising from such translations, if material, are included in the cumulative translation adjustment account under shareholders' equity in the consolidated balance sheet.

#### **End-of-service indemnities**

End-of-service indemnities, required by the Saudi Arabian Labor Law, are provided in the consolidated financial statements based on the employees' length of service by the Company and by its subsidiaries as of the consolidated balance sheet date. The Company has pension schemes for its eligible employees in relevant foreign jurisdictions.

**FAWAZ ABDULAZIZ AL HOKAIR & CO.**  
**(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED MARCH 31, 2011**

**Zakat and foreign income tax**

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

For subsidiaries outside the Kingdom of Saudi Arabia, tax liabilities are provided for in accordance with relevant tax jurisdictions.

**Dividends**

Dividend distributions are recorded in the year in which the dividend is declared.

**3. CASH AND BANK BALANCES**

	2011 SR	2010 SR
Cash in hand	5,820,306	3,944,002
Cash at banks	101,504,903	72,851,988
	<u>107,325,209</u>	<u>76,795,990</u>

**4. INVENTORIES**

	2011 SR	2010 SR
Goods available for sale	590,312,651	465,156,290
Goods in transit	39,742,280	33,118,567
Provision for inventory shortages	(52,431,101)	(45,259,871)
	577,623,830	453,014,986
Supplies	29,908,190	39,685,221
Provision for slow-moving supplies	(8,979,993)	(16,570,992)
	<u>598,552,027</u>	<u>476,129,215</u>

**5. PREPAYMENTS AND OTHER ASSETS**

	2011 SR	2010 SR
Prepaid rent	115,915,407	42,113,278
Advances to suppliers	99,893,892	38,737,908
Margin on letters of credit and guarantees	30,606,572	22,801,026
Receivable against sale of brand	14,910,000	-
Employee receivables	10,673,327	9,230,642
Receivable from Saudi Development Fund	6,201,140	7,971,780
Margin compensation receivable	6,030,510	7,560,314
Receivable against sale of investment	5,067,397	15,600,000
Dividend receivable	3,156,945	-
Others	5,318,781	10,625,896
	<u>297,773,971</u>	<u>154,640,844</u>

**FAWAZ ABDULAZIZ AL HOKAIR & CO.**  
**(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED MARCH 31, 2011**

**6. RELATED PARTY TRANSACTIONS**

During the year, the Company transacted with Fawaz Al Hokair Group. The terms of those transactions are approved by management in the ordinary course of business.

The significant transactions and the related amounts are as follows:

	2011 SR	2010 SR
Rental payments including advances	210,896,370	198,469,612
Sales	68,392,261	41,609,983
Construction works	23,264,417	40,450,935
Key management personnel and benefits	8,965,750	9,715,750
Board remuneration and compensation	1,740,000	1,140,000
Purchases	-	10,313,868

The balances due from related parties as of March 31 consist of the following:

	Relationship	2011 SR	2010 SR
<b>Due from related companies:</b>			
<b>Current</b>			
Arabian Centers Company	Affiliate	100,121,130	115,211,828
Retail Group Lebanon	Affiliate	32,206,684	34,993,589
Retail Group Egypt	Affiliate	-	656,732
		<u>132,327,814</u>	<u>150,862,149</u>
<b>Non-current</b>			
Fawaz Abdulaziz Al Hokair & Co. Real Estate Co.	Affiliate	<u>58,591,026</u>	<u>24,621,659</u>

Due to a related party as of March 31, consists of the following

	2011 SR	2010 SR
Retail Group Gulf LLC	-	<u>640,210</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED MARCH 31, 2011

7. INVESTMENTS

	Ownership percentage	Country of Incorporation	Balance March 31, 2011 SR	Balance March 31, 2010 SR
<b>Associates:</b>				
Investate Reality BSC	13.9%	Kingdom of Bahrain	24,472,000	41,913,749
FG 4 Limited	50%	United Arab Emirates	94,259	-
			<u>24,566,259</u>	<u>41,913,749</u>
<b>Available for sale (unquoted):</b>				
Trade Center	9.32%	Kingdom of Saudi Arabia	94,000,000	94,000,000
<b>Musharika investment</b>				
Galleria Mall (a)	16.67%	Kingdom of Saudi Arabia	99,252,274	100,000,000
<b>Other investments</b>				
			<u>1,188,331</u>	<u>-</u>
			<u>219,006,864</u>	<u>235,913,749</u>

Movement in associates is as follows:

	Opening balance April 01, 2010 SR	Additions SR	Equity share in net loss SR	Closing balance March 31, 2011 SR
Investate Reality BSC	41,913,749	-	(17,441,749)	24,472,000
FG 4 Limited	-	94,259	-	94,259
	<u>41,913,749</u>	<u>94,259</u>	<u>(17,441,749)</u>	<u>24,566,259</u>

- a) Investment in Galleria mall represents the Company's share (16.67%) in a Musharika venture. The venture is for the construction and management of a mall and a hotel. The investment is amortized over the period of 19 years being the legal term life of the investment.

Following is the movement in investments in Galleria Mall as at March 31:

	2011 SR	2010 SR
Cost	100,000,000	100,000,000
Addition	4,252,274	-
	<u>104,252,274</u>	<u>100,000,000</u>
Amortization	(5,000,000)	-
	<u>99,252,274</u>	<u>100,000,000</u>

**FAWAZ ABDULAZIZ AL HOKAIR & CO.**  
**(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED MARCH 31, 2011**

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**8. INVESTMENT PROPERTY, NET**

During the year, the Company sold its investment property in Kingdom Tower on 28<sup>th</sup> floor for SR 36 million. The gain on sale from this investment amounting to SR 12.4 million is recorded under other income.

**FAWAZ ABDULAZIZ AL HOKAIR & CO.**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED MARCH 31, 2011**

**9. PROPERTY AND EQUIPMENT, NET**

	Land SR	Buildings and leasehold improvements SR	Furniture and office equipment SR	Motor vehicles SR	Capital work in progress SR	Total SR
<b>Cost</b>						
April 1, 2010	68,991,690	717,807,841	118,763,490	9,793,881	98,187,164	1,013,544,066
Balances from acquired subsidiaries	-	24,525,676	14,994,573	137,163	-	39,657,412
Additions	-	16,620,697	14,726,538	-	32,356,571	63,703,806
Transfers	-	113,137,195	-	-	(113,137,195)	-
Disposals / write off	-	(3,148,864)	(524,735)	-	-	(3,673,599)
March 31, 2011	68,991,690	868,942,545	147,959,866	9,931,044	17,406,540	1,113,231,685
<b>Accumulated depreciation</b>						
April 1, 2010	-	344,629,231	54,955,447	8,665,117	-	408,249,795
Charge for the year	-	70,936,169	13,583,862	785,432	-	85,305,463
Balances from acquired subsidiaries	-	4,510,782	4,747,152	51,398	-	9,309,332
Disposals / write off	-	(2,386,394)	(443,042)	-	-	(2,829,436)
March 31, 2011	-	417,689,788	72,843,419	9,501,947	-	500,035,154
<b>Net book value</b>						
March 31, 2011	68,991,690	451,252,757	75,116,447	429,097	17,406,540	613,196,531
March 31, 2010	68,991,690	373,178,610	63,808,043	1,128,764	98,187,164	605,294,271

The transfer of the title deed for certain lands amounting to SR 16 million in the name of the Company were in process as of March 31, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED MARCH 31, 2011

10. ACQUISITION OF SUBSIDIARIES

a) During the year, the Company acquired following subsidiaries:

<u>Name of company acquired</u>	<u>Percentage of holding</u>	<u>Date of acquisition</u>
Retail Group Egypt S.A.E	98%	April 1, 2010
Retail Group Jordan Limited	95%	April 1, 2010

The fair value of net assets acquired of subsidiaries and the cost of acquisition is as follows:

	<u>Retail Group Egypt S.A.E SR</u>	<u>Retail Group Jordan Limited SR</u>	<u>Total SR</u>
Cash and bank balances	2,951,786	462,749	3,414,535
Inventories	13,581,459	8,927,656	22,509,115
Prepayments and other assets	19,061,639	8,246,614	27,308,253
Property and equipment	13,433,430	16,625,349	30,058,779
Other intangible assets	624,232	6,148,596	6,772,828
Trade payable	(19,770,778)	(9,853,952)	(29,624,730)
Accrued expenses and other liabilities	(8,265,233)	(1,992,012)	(10,257,245)
Net assets as of date of acquisition	21,616,535	28,565,000	50,181,535
Minority interest	(432,331)	(1,428,250)	(1,860,581)
Company's share of subsidiary's net assets	21,184,204	27,136,750	48,320,954
Cost of acquisition	21,184,204	27,136,750	48,320,954
Excess of Company's share of subsidiary's net assets and cost of acquisition	-	-	-

b) During the year ended March 31, 2010, the Company signed a Memorandum of Understanding to purchase 100% interest in Retail Group Gulf (RGG). During the second quarter of current year, the company decided to extend the duration of memorandum of understanding as to enable the RGG to complete the audit for the year then ended and review all the contracts and assets as the final cost of acquisition will be determined based on the carrying value of net assets as at March 31, 2010 that will be reflected in the audited financial statements of the Company at that date. As at March 31, 2011, the acquisition was still in process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED MARCH 31, 2011

11. OTHER INTANGIBLE ASSETS, NET

	Key Money SR	Oracle Implementation Cost SR	Trademark SR	Deferred charges SR	Total SR
<b>Cost</b>					
Opening	40,410,664	35,873,400	23,266,655	11,543,693	111,094,412
Balances from acquired subsidiary (note 10)	9,171,135	-	-	734,174	9,905,309
Addition	1,279,207	-	-	7,653,533	8,932,740
Transfer	-	(651,452)	-	-	(651,452)
<b>Closing</b>	<b>50,861,006</b>	<b>35,221,948</b>	<b>23,266,655</b>	<b>19,931,400</b>	<b>129,281,009</b>
<b>Accumulated</b>					
Opening	25,847,683	1,434,936	-	5,996,262	33,278,881
Balances from acquired subsidiary (note 10)	3,079,275	-	-	53,206	3,132,481
Amortization	3,676,323	1,409,263	-	6,653,367	11,738,953
Transfer	-	(9,627)	-	-	(9,627)
<b>Closing</b>	<b>32,603,281</b>	<b>2,834,572</b>	<b>-</b>	<b>12,702,835</b>	<b>48,140,688</b>
March 31, 2011	18,257,725	32,387,376	23,266,655	7,228,565	81,140,321
March 31, 2010	14,562,981	34,438,464	23,266,655	5,547,431	77,815,531

12. MURABAHA FINANCING

The Company has medium term and short-term Murabaha facilities with local commercial banks amounting to SR 370 million. As at March 31, 2010, the facilities have been fully utilized. The facilities are secured by promissory notes.

During the last quarter of March 31, 2010, the Company concluded an agreement with the financing bank to reschedule part of its short-term Murabaha facility amounting to SR 300 million into a medium-term Murabaha which will be repayable in equal quarterly installments of SR 25 million each commencing from July 2011. The Murabaha facility carries markup at SIBOR plus agreed margin per annum.

One of the subsidiaries of the company in Egypt has a short term loan and overdraft facility available from local commercial bank in Egypt amounting to SR 15.7 million. The unutilized portion of the facility as at March 31, 2011 amounted to SR 0.6 million. The facility is secured by the corporate guarantee of FAS Holding Co. and other guarantees. Commission on this facility is payable at varying rates in force from time to time.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED MARCH 31, 2011**

**13. ACCRUED EXPENSES AND OTHER LIABILITIES**

	2011 SR	2010 SR
Rent	78,418,182	55,993,202
Dividend payable	54,471,000	-
Payable to contractors and others	53,755,909	32,947,813
Provision for zakat and foreign income tax (Note 14)	41,495,886	30,044,187
Employees' salaries and benefits	37,870,732	37,141,277
Royalty payable	10,472,399	31,675,636
Customs and shipping	10,152,156	9,602,232
Utility	5,932,835	1,482,230
Withholding tax	5,587,198	6,807,875
Sales tax payable	4,593,681	-
Accrued consignment	4,569,493	2,225,184
Others	23,182,322	11,050,305
	<u>330,501,793</u>	<u>218,969,941</u>

**14. ZAKAT AND FOREIGN INCOME TAX**

The principal elements of the zakat base for Fawaz Abdulaziz Al Hokair & Co. are as follows:

	2011 SR	2010 SR
Opening shareholders' equity less dividends	779,347,481	862,847,024
Adjusted net income	321,893,160	239,329,626
Non-current liabilities and provisions	289,276,956	337,734,937
Non-current assets	(977,292,695)	(993,939,957)

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

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

<u>Zakat</u>	2011 SR			2010 SR
	Fawaz Abdulaziz Al Hokair & Co.	Subsidiaries	Total	Total
Balance, April 1	17,904,268	12,139,919	30,044,187	19,329,187
Provision for the year	3,361,726	5,935,000	9,296,726	10,715,000
Payment during the year	(3,451,726)	(185,414)	(3,637,140)	-
Balance, March 31 (Note 13)	<u>17,814,268</u>	<u>17,889,505</u>	<u>35,703,773</u>	<u>30,044,187</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED MARCH 31, 2011**

**Foreign income tax**

	2011 SR	2010 SR
Provision for the year	5,792,113	644,456
Payment during the year	-	(644,456)
	<u>5,792,113</u>	<u>-</u>

The charge for the year for zakat and income tax is as follows:

	2011 SR	2010 SR
Zakat for current year	9,296,726	10,715,000
Income tax for current year	5,792,113	644,456
	<u>15,088,839</u>	<u>11,359,456</u>

During the year ended March 31, 2008, the Company received zakat assessment for the years ended March 31, 2002 to 2007 which showed additional claims from DZIT amounting to SR 13 million. The Company has objected on certain items amounting to SR 4 million and accordingly submitted a letter of guarantee for the objected amount and received the final zakat certificate for the said years.

The Company has filed zakat returns for the years ended March 31, 2009 and 2010 which are under review of DZIT.

**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. SELLING AND MARKETING EXPENSES**

	2011 SR	2010 SR
Rent	388,883,011	332,554,049
Employees' salaries and benefits	221,715,535	176,362,244
Utilities and maintenance	25,928,968	19,676,017
Advertising and publishing	24,893,619	14,746,256
Travel	8,219,078	5,935,177
Packing materials	6,772,858	10,559,123
Insurance	1,975,855	663,193
Others	10,547,822	7,370,967
	<u>688,936,746</u>	<u>567,867,026</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED MARCH 31, 2011**

**17. GENERAL AND ADMINISTRATIVE EXPENSES**

	2011 SR	2010 SR
Employees' salaries and related expenses	52,095,762	38,677,496
Bank charges	10,779,156	5,823,764
Provision for impairment in trade marks	5,407,640	-
Utility	5,027,949	3,419,743
Travel	4,170,851	2,720,885
Rent	2,464,009	2,212,532
Others	6,129,749	3,365,409
	<u>86,075,116</u>	<u>56,219,829</u>

**18. OTHER INCOME, NET**

	2011 SR	2010 SR
Dividend income	55,036,557	-
Foreign exchange gain	14,692,438	22,963,658
Gain on sale of brand	14,523,344	-
Income from sale of investment (Note 8)	12,383,836	15,600,000
Insurance claim	5,275,781	-
Rental income	301,318	3,615,823
Others	4,468,069	2,537,529
	<u>106,681,343</u>	<u>44,717,010</u>

**19. DIVIDENDS**

The Board of directors in a meeting dated February 28, 2011 recommended to distribute cash dividends of SR 175,000,000 (SR 2.5 per share) from the retained earnings as of December 31, 2010.

The Board of directors in a meeting dated June 23, 2010 recommended to distribute cash dividends of SR 140,000,000 (SR 2 per share) from the retained earnings as of March 31, 2010.

**20. CONTINGENT LIABILITIES AND COMMITMENTS**

At March 31, the Company had commitments and contingent liabilities as follows:

	2011 SR	2010 SR
Letters of guarantee	139,856,046	142,088,060
Letters of credit	214,566,252	140,078,456
Capital commitments-fixed assets	89,222,435	-
Capital commitments-investments	30,000,000	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED MARCH 31, 2011**

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**21. EARNINGS PER SHARE**

Earnings per share from operating income and from net income for the year is calculated by dividing operating income and net income for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The outstanding number of shares used for calculating earning per share for the years ended March 31, 2011 and March 31, 2010 was 70 million shares.

**22. SIGNIFICANT EVENT DURING THE YEAR**

On March 26, 2011, the company entered into a partnership agreement with Burberry International Holdings Limited (a member of the Burberry British), to establish a limited liability company based in Riyadh, Kingdom of Saudi Arabia to market and sell products of under the brand name "Burberry". Fawwaz Abdulaziz Alhokair &Co. owns 40% of the share capital of the company.

**23. SEGMENT INFORMATION**

The Company mainly sells fashion apparels and operates through its various retail outlets mainly scattered in the Kingdom of Saudi Arabia. Further, the Company also operates in Jordan, Egypt and Republic of Kazakhstan.

**24. FAIR VALUE**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

**25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments carried on the balance sheet principally include cash and bank balances, due from related parties, prepayments and other assets, trade payables and accrued expenses and other liabilities.

**Credit risk** is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has no significant concentration of credit risk. Cash is substantially placed with national banks with sound credit ratings. Prepayment and other assets are carried net of provision for doubtful debts, if any.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED MARCH 31, 2011

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**Commission rate risk** is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company's financial position and cash flows. The Company monitors the fluctuations in commission rates and believes that the effect of the commission rate risk is not material.

**Currency risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi riyals, Euro and U.S. dollars. Management monitors the fluctuations in currency exchange rates, and the effect of the currency fluctuation was beneficial to the Company during the year.

**Liquidity risk** is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity is managed periodically by ensuring its availability in amounts sufficient to meet any future commitments. The Company does not consider itself exposed to significant risks in relation to liquidity.

**26. BOARD OF DIRECTORS APPROVAL**

The financial statements were approved by the Board of Directors on May 3, 2011.

**27. COMPARATIVE FIGURES**

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