

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
DECEMBER 31, 2010
With
INDEPENDENT AUDITORS' REPORT





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INDEPENDENT AUDITORS' REPORT

To: **The Shareholders**
Methanol Chemicals Company
Dammam, Kingdom of Saudi Arabia

We have audited the accompanying financial statements of Methanol Chemicals Company ("the Company") which comprise the balance sheet as at December 31, 2010 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) through (26) which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article 123 of the Regulations for Companies and the Company's Articles of Association. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors' responsibility

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 comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

In our opinion, the financial statements taken as a whole:

- 1) present fairly, in all material respects, the financial position of the Company as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and
- 2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

For KPMG Al Fozan & Al Sadhan

Tareq Abdulrahman Al Sadhan
License No. 352



Al Khobar, 12 February, 2011
Corresponding to: 9, Rabi' I, 1432H

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

BALANCE SHEET

As at DECEMBER 31, 2010

Expressed in Saudi Arabian Riyals

	Note	2010	2009
ASSETS			
Current assets:			
Cash and cash equivalents	4	136,169,510	270,440,656
Trade receivables and prepayments	5	219,157,155	156,633,148
Inventories	6	83,242,482	57,023,125
Total current assets		438,569,147	484,096,929
Non-current assets:			
Property, plant and equipment	7 & 8	2,598,882,383	2,509,585,187
Intangible assets	9	15,750,000	--
Deferred charges	10	7,696,356	2,170,350
Long term prepaid expenses	11	31,874,992	36,875,000
Total non-current assets		2,654,203,731	2,548,630,537
Total assets		3,092,772,878	3,032,727,466
LIABILITY AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables and accruals	12	159,168,513	153,369,024
Short term loans	13	41,606,587	58,000,000
Current portion of long-term bank debts	13	449,283,766	38,443,219
Current portion of long term obligations	9	5,250,000	--
Zakat provision	19	4,579,858	2,916,385
Total current liabilities		659,888,724	252,728,628
Non-current liabilities			
Long-term bank debts	13	988,934,068	1,351,160,994
Long term obligations	9	7,900,000	--
Employees' end of service benefits		21,274,205	18,257,901
Total non-current liabilities		1,018,108,273	1,369,418,895
Total liabilities		1,677,996,997	1,622,147,523
SHAREHOLDERS' EQUITY			
Share capital	14	1,206,000,000	1,206,000,000
Share premium	15	72,850,071	72,850,071
Statutory reserve		17,522,617	16,918,519
Retained earnings		118,403,193	114,811,353
Total shareholders' equity		1,414,775,881	1,410,579,943
Total liabilities and shareholders' equity		3,092,772,878	3,032,727,466




The accompanying notes 1 through 26 form an integral part of these financial statements.

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME
For the year ended December 31, 2010
Expressed in Saudi Arabian Riyals

	Note	2010	2009
Sales		589,495,283	402,302,427
Cost of Sales		<u>(470,579,263)</u>	<u>(304,954,337)</u>
Gross Profit		118,916,020	97,348,090
Selling and distribution expenses	17	(57,516,506)	(45,338,746)
General and administrative expenses	18	(19,170,756)	(19,894,521)
Amortisation of deferred charges	10	<u>(2,184,240)</u>	<u>(1,413,216)</u>
Operating income		40,044,518	30,701,607
Other income, net		1,052,119	1,699,631
Financial charges		<u>(29,007,407)</u>	<u>(8,047,592)</u>
Income before Zakat		12,089,230	24,353,646
Zakat	19	<u>(6,048,248)</u>	<u>(2,298,657)</u>
Net income		<u>6,040,982</u>	<u>22,054,989</u>
Earnings per share	21	<u>0.05</u>	<u>0.18</u>

The accompanying notes 1 through 26 form an integral part of these financial statements.



METHANOL CHEMICALS COMPANY
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STATEMENT OF CASH FLOWS
For the year ended December 31, 2010
Expressed in Saudi Arabian Riyals

	Note	2010	2009
Cash flow from operating activities:			
Net income before Zakat		12,089,230	24,353,646
<i>Adjustment to reconcile net income to net cash provided by operating activities:</i>			
Depreciation		95,317,423	26,549,395
Amortisation		2,184,240	1,413,216
Employees' end of service benefits, net		3,016,304	2,279,318
Financial charges		29,007,407	8,047,592
Gain on sale of property, plant and equipment		(8,379)	(365,671)
		<u>141,606,225</u>	<u>62,277,496</u>
Changes in operating assets and liabilities:			
Accounts receivable and prepayments		(62,524,007)	18,146,071
Inventories		(6,401,629)	(1,266,997)
Accounts payable and accruals		41,099,152	(672,195)
Financial charges paid		(29,007,407)	(8,047,592)
Zakat paid		(4,384,775)	(282,272)
Net cash provided by operating activities		<u>80,387,559</u>	<u>70,154,511</u>
Cash flow from investing Activities:			
Additions to property, plant and equipment		(204,505,145)	(551,936,517)
Deferred charges		(7,710,246)	--
Proceeds from sale of property, plant and equipment		81,177	678,205
Additions of intangible assets		(2,600,000)	--
Movement in margin deposits with banks		--	4,719,402
Net movement in amounts due to project contractors		(37,144,707)	67,991,814
Net movement in long term prepaid expenses		5,000,008	5,000,000
Net cash used in investing activities		<u>(246,878,913)</u>	<u>(473,547,096)</u>
Cash flow from financing Activities:			
Net movement in short term loans		(16,393,413)	(17,000,000)
Net movement in long term loans		48,613,621	316,137,066
Net cash provided by financing activities		<u>32,220,208</u>	<u>299,137,066</u>
Net decrease in cash and cash equivalents		<u>(134,271,146)</u>	<u>(104,255,519)</u>
Cash and cash equivalents at beginning of the year		<u>270,440,656</u>	<u>374,696,175</u>
Cash and cash equivalent at end of the year	4	<u>136,169,510</u>	<u>270,440,656</u>
Non cash items			
Transfer of spares from assets under construction to inventory		19,817,728	--
Acquisition of intangible assets		13,150,000	--

The accompanying notes 1 through 26 form an integral part of these financial statements.

METHANOL CHEMICALS COMPANY
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
DECEMBER 31, 2010
 Expressed in Saudi Arabian Riyals

	<u>Share capital</u>	<u>Share premium</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at December 31, 2008	1,206,000,000	72,850,071	14,713,020	96,779,863	1,390,342,954
Net income for the year	--	--	--	22,054,989	22,054,989
Directors' remuneration	--	--	--	(1,818,000)	(1,818,000)
Transfer to statutory reserve	--	--	2,205,499	(2,205,499)	--
Balance at December 31, 2009	1,206,000,000	72,850,071	16,918,519	114,811,353	1,410,579,943
Net income for the year	--	--	--	6,040,982	6,040,982
Directors' remuneration	--	--	--	(1,845,044)	(1,845,044)
Transfer to statutory reserve	--	--	604,098	(604,098)	--
Balance at December 31, 2010	1,206,000,000	72,850,071	17,522,617	118,403,193	1,414,775,881




The accompanying notes 1 through 26 form an integral part of these financial statements.

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010
Expressed in Saudi Arabian Riyals

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Methanol Chemical Company is a Saudi Joint Stock Company registered in Saudi Arabia under Commercial Registration number 2055001870 dated 28 Dhu Al-Hijjah 1409H corresponding to 31 July 1989. It is licensed to engage in the production of formaldehyde liquid and urea formaldehyde liquid or their mixture with different concentrations, paraformaldehyde, formaldehyde resins, hexane methylene tetramine, phenol formaldehyde resins, concrete improvers, methanol, carbon monoxide, di-methylamine, mono-methylamine, tri-mono-methylamine, di-methyl formamide, di-methyl carbon, penta aritheretol, sodium formate and acetaldehyde, as per ministerial resolution number (616/Saud) dated 12 Safar 1429H, corresponding to 19 February 2008.

The company was converted from a limited liability company into a joint stock company in accordance with Ministerial Resolution No. 286 dated 4 Dhul al-Qa'dah 1428H, corresponding 14 November 2007.

2. BASIS OF PREPARATION

(a) Statement of compliance

The accompanying financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).


The financial statements were authorized for issue by the Board of Directors on 12 February 2011.

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis using the accrual basis of accounting and the going concern concept.

(c) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency.



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NOTES TO THE FINANCIAL STATEMENTS
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2. **BASIS OF PREPARATION (continued)**

(d) **Use of estimates and judgements**

The preparation of financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

3. **SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in the financial statements. Certain comparative amounts, in note 4,5 and 7 have been reclassified to conform to the current year's presentation

a. **Trade receivables**

Trade receivables are stated at original invoice amount less provisions made for amounts which in the opinion of the management may not be received. Bad debts are written off when identified.

b. **Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is principally based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

c. **Property, plant and equipment**

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the income statement when incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of individual items of property, plant and equipment.

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NOTES TO THE FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Property, plant and equipment (continued)

The estimated useful lives of assets for current and comparative periods are as follows:

	<u>Years</u>
Freehold buildings	33.33 years
Improvements on leasehold lands	5 years
Furniture, fixtures and office equipments	7 to 10 years
Computers and software	4 to 8 years
Plant, equipment and capital spares	10 to 20 years
Motor vehicles	4 years
Catalysts	1 to 3 years

Capital work in progress is stated at cost less impairment losses, if any, and is not depreciated until the asset is brought into commercial operations.

d. Intangible assets

Estimated value of the right to use pipelines owned by others for transporting raw materials and finished goods are treated as intangible assets and are amortised over the estimated period of future economic benefits.

e. Deferred charges

Costs relating to software licence fees and implementation thereof are treated as deferred charges and amortised over the estimated period of future economic benefits.

f. Long term prepaid expenses

Loan appraisal fees of the Saudi Industrial Development Fund (SIDF) are treated as long term prepaid expenses and amortised over the period of the loan. Amortisation is capitalized up to the date the plant is available for its intended use.

g. Impairment of assets

Financial assets, property, plant and equipment and other non-current assets are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

h. Long term obligations

Long term obligations represent the amount payable in respect of the acquisition costs of intangible assets.

i. Trade payables and accruals

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

j. Employees' end of service benefits

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the Statement of Income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

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NOTES TO THE FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- k. Share premium
Share premium represents the excess amount collected over the face value of shares issued and is shown net of expenses incurred in relation to the share issue.
- l. Revenue recognition
Revenue from sales is recognized upon delivery or shipment of products and when the risks and rewards have passed to the buyer. Revenue is recorded net of returns, trade discounts and volume rebates.
- m. Operating leases
Payments under operating leases are recognized in the Statement of Income on a straight line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.
- n. Expenses
Selling and marketing expenses are those arising from the Company's efforts underlying the marketing, selling and distribution functions. All other expenses, excluding direct costs and financial charges, are classified as general and administrative expenses. Allocations of common expenses between cost of sales and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.
- o. Zakat
Zakat, computed in accordance with Saudi Arabia Tax and Zakat regulations, is accrued and charged to the Statement of Income.
- p. Foreign currency translation
Transactions denominated in foreign currencies are translated to the functional currency of the Company at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated to the functional currency of the Company at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the Statement of Income currently.
- q. Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and cash with banks which are available to the Company without any restrictions.
- r. Earnings per share
Earnings per share from net income are calculated by dividing the net income for the period by the weighted average number of shares outstanding during the period.
- s. Segmental reporting
A segment is a distinguishable component of the company that is engaged in providing products, services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. Because the management views the whole activities of the company as one operating segment, reporting is provided by geographical segment only.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Dividends

Interim dividends are recorded as a liability in the period in which they are approved by the Board of Directors. Final dividends are recorded in the period in which they are approved by the shareholders.

u. Fair values

The fair value of commission-bearing items is estimated based on discounted cash flows using commission rates for items with similar terms and risk characteristics.

v. Derivative financial instruments

The company uses derivative financial instruments such as commission rate swaps, to hedge its exposure to commission rate risks arising from borrowings. These do not qualify for hedge accounting and are accordingly treated as trading instruments.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31 comprise the following:

	<u>2010</u>	<u>2009</u>
Cash in hand	26,423	120,000
Cash at bank on current accounts	107,305,887	90,320,656
Short term bank deposits	28,837,200	180,000,000
	<u>136,169,510</u>	<u>270,440,656</u>

5. TRADE RECEIVABLE AND PREPAYMENTS

Trade receivables at December 31 comprise the following:

	<u>2010</u>	<u>2009</u>
Trade accounts receivable	195,517,602	123,795,876
Advances to suppliers	16,853,994	23,182,756
Other receivables	6,113,683	9,157,532
Prepaid expenses	671,876	496,984
	<u>219,157,155</u>	<u>156,633,148</u>

6. INVENTORIES

Inventories at December 31 comprise the following:

	<u>2010</u>	<u>2009</u>
Raw materials	9,546,561	14,639,811
Finished goods	13,502,842	12,216,609
Spare parts and supplies	60,193,079	30,166,705
	<u>83,242,482</u>	<u>57,023,125</u>

METHANOL CHEMICALS COMPANY
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7. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment during the year ended December 31, 2010 is analyzed as under.

	Building and improvement on leasehold land	Furniture, fixtures and office equipment	Computers and software	Plant, equipment, capital spares and motor vehicles	Capital work in progress	Catalyst	Total 2010	Total 2009
<u>Cost</u>								
Balance at January 1	54,906,498	11,015,490	8,838,154	464,908,547	2,205,941,169	1,346,659	2,748,956,517	2,199,412,469
Additions	156,603	221,143	996,617	4,514,223	178,692,876	19,923,683	204,505,145	551,936,517
Transfers from WIP	301,340,716	4,422,112	223,882	2,025,623,828	(2,331,610,538)	-	-	-
Transfer to inventory	-	-	-	-	(19,817,729)	-	(19,817,729)	-
Disposals	-	(38,888)	-	(170,166)	-	-	(209,054)	(2,392,469)
Balance at December 31	356,403,817	15,619,857	10,058,653	2,494,876,432	33,205,778	23,270,342	2,933,434,879	2,748,956,517
<u>Accumulated depreciation</u>								
Balance at January 1	15,332,630	5,980,583	7,891,063	209,185,040	-	982,014	239,371,330	214,901,870
Charge for the year	6,489,528	1,308,226	727,363	74,801,682	-	11,990,624	95,317,423	26,549,395
Disposals	-	(6,157)	-	(130,100)	-	-	(136,257)	(2,079,935)
Balance at December 31	21,822,158	7,282,652	8,618,426	283,856,622	-	12,972,638	334,552,496	239,371,330
<u>Net book value</u>								
At December 31, 2010	334,581,659	8,337,205	1,440,227	2,211,019,810	33,205,778	10,297,704	2,598,882,383	
At December 31, 2009	39,573,868	5,034,907	947,091	255,723,507	2,205,941,169	2,364,645		2,509,585,187

METHANOL CHEMICALS COMPANY
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7. PROPERTY, PLANT AND EQUIPMENT (continued)

The company's factory premises are situated in the Jubail Industrial Area and have been constructed on land leased from the Royal Commission for Jubail and Yanbu ('the Commission') for a period of 25 years from 16 April 1990 corresponding to 21 Ramadan 1410H at an annual rent of SR 110,430. The company has entered into another land lease arrangement with the Commission for a period of 30 years from 20 July 2007 corresponding to 3 Rabi II 1428H at an annual rent of SR 290,728. The company has the option of renewing the lease arrangement on expiry of the initial lease arrangement.

The term loans of the Saudi Industrial Development Fund ('SIDF') are secured by a mortgage over property, plant and equipment.

Capital work in progress mainly comprises cost incurred on the construction of a methanol plant, pentaerythritol plant, dimethylformamide and augmentation of formaldehyde capacity.

The current year additions to capital work in progress include SR 29,804,635 (2009: SR 37,765,487) of capitalized borrowing cost.

The current year additions to capital work in progress include SR2,500,000 (2009: SR 5,000,000) of amortised SIDF loan appraisal fees (note 10)

Capital work in progress as of 31 December 2009 also include SR2,755,810 (2009: SR1,199,998) being net trial run production cost (note 8).

8. TRIAL RUN PRODUCTION

	<u>2010</u>	<u>2009</u>
Sale of trial run production	113,182,417	17,105,133
Cost of trial run production	(110,427,237)	(18,305,131)
	<u>2,755,180</u>	<u>(1,199,998)</u>

The Methanol, DMF and Penta projects completed commercial trial run production on 30 June 2010. The cost of trial run production, net of related sales has been capitalized into capital work in progress (note 7).

9. INTANGIBLE ASSETS

On 7 March 2010, the Company entered into a Pipeline Services Agreement ('PSA') for three years, which provides the Company with a contractual right to use the pipeline for ammonia supply. Payments will be made over the 3 year period, commencing April 2010.

The Company has capitalised the estimated amount payable in respect of the Capital Investment Component, which amounts to SR 15.75 million. The management is amortising the intangible asset over twenty years, on the basis that this is the estimated useful life of the asset.

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10. DEFERRED CHARGES

The movement in deferred charges for the year ended December 31 is as follows

	<u>2010</u>	<u>2009</u>
<u>Cost</u>		
At January 01, 2010	7,066,052	7,066,052
Additions during the year	7,710,246	-
At December 31, 2010	<u>14,776,298</u>	<u>7,066,052</u>
<u>Accumulated amortization</u>		
At January 01, 2010	4,895,702	3,482,486
Charge for the year	2,184,240	1,413,216
At December 31, 2010	<u>7,079,942</u>	<u>4,895,702</u>
Net book value at December 31, 2010	<u>7,696,356</u>	<u>2,170,350</u>

Deferred charges represent software license and implementation costs and are amortised over the period of five years from the date of successful implementation.

11. LONG TERM PREPAID EXPENSES

The movement in long term prepaid expenses for the year ended December 31 is as follows

	<u>2010</u>	<u>2009</u>
<u>Cost</u>		
At January 1, 2010	45,000,000	45,000,000
Additions during the year	-	-
At December 31, 2010	<u>45,000,000</u>	<u>45,000,000</u>
<u>Accumulated amortization</u>		
At January 1, 2010	8,125,000	3,123,000
Charge for the year	5,000,008	5,000,000
At December 31, 2010	<u>13,125,008</u>	<u>8,125,000</u>
Net book value at December 31, 2010	<u>31,874,992</u>	<u>36,875,000</u>

Long term prepaid expenses represent the SIDF funding appraisal costs and are being amortised over a period of nine years.

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12. TRADE PAYABLES AND ACCRUALS

Trade payable and accruals as at December 31 comprise the following:

	<u>2010</u>	<u>2009</u>
Trade accounts payable	51,408,652	32,365,205
Amount due to project contractor	9,083,495	28,651,825
Retention payable to project contractor	44,319,670	61,896,047
Amounts due to companies affiliated to shareholders	364,532	1,187,671
Advance from customers	1,196,281	1,065,618
Accrued expenses	52,795,883	28,202,658
	<u>159,168,513</u>	<u>153,369,024</u>

13. BANK DEBTS

a. Short-term bank debts

The company has working capital facilities with local banks. Commission is charged on the short-term loans at commercial rates. The short-term loans are secured by promissory notes.

b. Long-term bank loans

Long-term bank loans at December 31 comprise of the following:

	<u>2010</u>	<u>2009</u>
Saudi Industrial Development Fund (note a)	600,000,000	480,000,000
Murabaha facility from syndicate of banks (note b)	512,217,834	583,604,213
Project cost overrun Murabaha Facility from syndicate of banks (note c)	326,000,000	326,000,000
	<u>1,438,217,834</u>	<u>1,389,604,213</u>

Presented in the balance sheet as follows:

	<u>2010</u>	<u>2009</u>
Current portion shown under current liabilities (note d)	449,283,766	38,443,219
Non-current portion shown under non-current liabilities	988,934,068	1,351,160,994
	<u>1,438,217,834</u>	<u>1,389,604,213</u>

- a) During 2008 the SIDF sanctioned a loan of SR 600 million which is repayable in 14 semi-annual instalments starting from 15/02/1432H (corresponding to 20 January 2011) and ending on 15/08/1438H (corresponding to 12 May 2017). This loan is secured by a mortgage over property, plant and equipment of the company.

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13. BANK DEBTS (continued)

- b) In 2007, the company entered into a Murabaha Facility Agreement with a syndicate of banks, namely; Arab Banking Corporation (B.S.C), Riyadh Bank, Samba Financial Group, Saudi Hollandi Bank, National Commercial Bank and SABB (collectively called as "Murabaha Facility Participants") to provide Project Murabaha Facility of SR 940 million, refinance Murabaha Facility of SR 37.5 million, and Working Capital Murabaha Facility and Standby Murabaha Sub-Facility of SR 150 million together.

Project Murabaha Facility loan amounting to SR 525 million has been repaid on availment of the SIDF loan and accordingly repayment schedule is restructured. As per the latest revised repayment schedule the company is liable to repay amounts withdrawn under Project Murabaha Facility plus profit in 12 half yearly instalments ranging from SR 29 million to SR 38 million commencing from 2 Sha'ban 1431H, corresponding to 14 July 2010 and ending on 3 Rabi II 1437H, corresponding to 13 January 2016.

Amounts withdrawn under Working Capital Murabaha Facility and Standby Murabaha Sub-Facility are repayable in four installments of SR 37.5 million each commencing from 15 January 2013 and ending on 15 June 2015.

The facilities under Murabaha Agreement are secured by promissory notes.

- c) In 2009, the company entered into a Project Cost Overrun Murabaha Facility Agreement with syndicate of banks, namely; Arab Banking Corporation (B.S.C), Riyadh Bank, Samba Financial Group, Saudi Hollandi Bank, National Commercial Bank and SABB (collectively called as "The Project Cost Overrun Murabaha Facility Participants") to provide Project Cost Overrun Murabaha Facility of SR 326 million to finance ongoing expansion projects. As per the agreement, the amounts drawn under this facility are repayable two years from drawdown note i.e. 18 November 2011.

The facility is secured by promissory notes. The company is required to comply with certain covenants under all of above facilities. The instalments due within one year from balance sheet are shown as current liabilities (note d).

- d) Current portion of term loans as of December 31, 2010, includes SR 326 million attributable to "Project Cost Overrun Murabaha Facility Agreement". During 2009, the company entered into Project Cost Overrun Murabaha Facility Agreement with syndication of banks namely Arab Banking Corporation (B.S.C), Riyadh Bank, Samba Financial Group, Saudi Hollandi Bank, National Commercial Bank and SABB (collectively called as "Murabaha Facility Participants") to provide Project Cost Overrun Murabaha Facility of SR 326 million to finance the expansion projects. As per the agreement, the amounts drawn under this facility are repayable within two years from drawdown note date of 18 November 2009.

As per the terms of the agreement, the facility amount repayment is due on November 18, 2011, through rights issue. As of 12 February 2011 the company is confident to meet its obligation and is contemplating the options of either extending the maturity date of the loan and/or raising additional capital to meet its obligation. As the company is not required to repay the facility from its 2011 operational cash flows, it is appropriate to prepare these financial statements on a going concern basis.

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14. SHARE CAPITAL

Share capital is divided into 120,600,000 shares (2009: 120,600,000 shares) of SR 10 each.

15. SHARE PREMIUM

During 2008: 60,300,000 shares having face value of SR 10 each were issued at premium of SR 2 per share.

	<u>2010</u>	<u>2009</u>
Premium received	120,600,000	120,600,000
Share issued related expenses	(47,749,929)	(47,749,929)
	<u>72,850,071</u>	<u>72,850,071</u>

16. DIRECTORS' REMUNERATION

The Board of Directors' remuneration has been shown as an appropriation in the Statement of Changes in Shareholders' Equity in accordance with the company's by-laws.

17. SELLING AND DISTRIBUTION EXPENSES

	<u>2010</u>	<u>2009</u>
Employee costs	3,291,944	2,651,612
Sales commission	12,043,575	8,910,233
Freight	35,519,934	30,186,665
Advertisement and promotion	504,281	435,851
Other	6,256,772	3,154,385
	<u>57,616,506</u>	<u>45,338,746</u>

18. GENERAL AND ADMINISTRATION EXPENSES

	<u>2010</u>	<u>2009</u>
Employee costs	11,793,266	12,007,295
Depreciation	1,979,410	2,390,111
Travel and air fares	540,920	401,819
Professional fees	767,715	647,929
Other	4,089,445	4,447,367
	<u>19,170,756</u>	<u>19,894,521</u>

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19. ZAKAT

a) The Department of Zakat and Income Tax ("DZIT") has raised final Zakat assessment for all years up to 31 December 2008. The Company has filed its Zakat declaration for all the years upto 2009 and paid Zakat accordingly and the assessment is awaited.

b) Zakat charge for the year ended December 31 comprises the following:

	<u>2010</u>	<u>2009</u>
For current year	4,579,858	2,282,548
For previous year	1,468,390	16,109
Balance at end of the year	<u>6,048,248</u>	<u>2,298,657</u>

c) Summary of the items included in the Zakat base for the year ended 31 December is are follows:

	<u>2010</u>	<u>2009</u>
Capital	1,206,000,000	1,206,000,000
Adjusted equity and provision at the beginning of the year	1,487,236,908	203,638,203
Net adjusted income	(198,239,731)	7,871,005
Deductions	<u>(2,311,802,858)</u>	<u>(1,300,853,814)</u>
Zakat base	<u>183,194,319</u>	<u>116,655,394</u>

d) The movement in the Zakat provision is as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of the year	2,916,385	900,000
Charged during the year	6,048,248	2,298,657
Payment during the year	<u>(4,384,775)</u>	<u>(282,272)</u>
Balance at end of the year	<u>4,579,858</u>	<u>2,916,385</u>

20. EARNINGS PER SHARE

Earnings per share for the year ended December 31, 2010 have been computed by dividing the net income for such period by the weighted-average number of ordinary shares outstanding during the year ended December 31, 2010 of 120,600,000 shares.

21. CAPITAL COMMITMENTS

As at December 31, 2010, the company had capital expenditure commitments of SR 23 million (2009: SR 180 million).

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22. RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of business, the company undertakes transactions with other companies that have certain common shareholders. All such transactions are executed on commercial terms that are approved by management.

Sales include an amount of SR 8,238,977 (2009: SR 5,464,337) in respect of finished goods sold to affiliated companies.

The cost of sales and expenses include amounts of SR 3,497,080 (2009: SR 5,507,319) in respect of purchase of inventories and services provided by companies affiliated to shareholders.

Amounts payable to companies affiliated to shareholders are included in accounts payable and accruals under notes 12.

23. CONTINGENT LIABILITY

At December 31, 2010, the Company has a contingent liability of SR 44,351,946 (2009: SR 60,511,935) in respect of bank guarantees issued by the Company's bank in respect of bid bonds, contracts advance payments and performance bonds.

24. DERIVATIVE INFORMATION

On 29 April 2008, the company has entered into a Commission Rate Swap Option (Swap option) contract with a Project Murabaha Participant Bank in order to fix LIBOR at 4% effective from 15 July 2010 for its Project Murabaha loan of SR 341 million. The derivative transaction does not qualify for hedge accounting and is accordingly treated as a trading instrument by the company. On 15th July 2010, the company had the right of either exercising the swap option or cancelling it. The company elected to cancel the swap option without incurring any additional cost.

25. SEGMENT INFORMATION

The management of the company views the whole business activities of the company as one operating segment for performance assessment and resources allocation.

Because the management views the whole activities of the company as one segment, reporting is provided by geographical segment only. Approximately 65% or SR 384 million of the sales of the company for the year are through export (2009: 72% or SR 290 million).

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26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet include cash and cash equivalents, trade receivable and prepayments, trade payables and accruals, short term loans and long term bank debts.

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has no significant concentration of credit risks. Cash and cash equivalents are placed with national and international banks with sound credit ratings. Trade and other accounts receivable are actively monitored by the management for recoverability and impairment and are stated at their estimated realizable values.

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's interest rate risk arise mainly from short-term borrowings and long term debts, which are at floating rates of interest. All deposits and debts are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Company could be significant.

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value.

Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments.

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 riyal, United States dollar and Euro. Transactions in Saudi Riyal and United States dollar are not considered to represent significant risk to the Company.

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 accompanying financial statements are prepared under the historical cost method, differences may arise between the book values and the 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.