

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)

BOARD OF DIRECTORS' REPORT FOR THE YEAR 2011

The Board of Directors is pleased to present its annual report together with the audited financial statements for the year ended December 31, 2011.

Alujain Corporation's objective is to identify, evaluate, promote, develop and invest in major industrial projects in the petrochemicals, mining, metals and energy sectors in the Kingdom of Saudi Arabia by taking advantage of the Kingdom's natural resources. Pursuant to these objectives the Company acquired majority (57.4%) equity ownership in National Petrochemical Industrial Company (NATPET) which operates a 400,000 tons per year Propylene & Polypropylene Complex (PP Complex) in Yanbu Industrial City.

The Net Profit of Natpet for the fiscal year 2011 was SR 1.7 million, as against SR 74.2 million in 2010. This drop in profit is mainly due to lower production in 2011 i.e. 277K metric tons which is 69% of design capacity, as compared to 342K metric tons in 2010 which is 86% of design capacity.

Natpet's sales in 2011 were SR 1,472 million (264K metric tons) compared to SR 1,562 million (332K metric tons) in 2010. The 2010 numbers are for the full year including pre-commercial production period. The lower production is mainly attributed to two key factors.

1. Due to certain technical problems, there has been a shutdown of the plant in May-June 2011 for a major turnaround maintenance, which is generally conducted roughly every three years. However, it is of note that this maintenance work has helped the plant to achieve 100% of design capacity and resolve most of its technical problems.
2. During the second half of the year there had been a decrease in the polypropylene prices in global markets. It further deteriorated in the last quarter due to troubled global economic situation, particularly in the euro zone, which had a serious impact on the global markets. However, the cause of lower profits is mainly due to interruption in production (plant shutdown) as mentioned above.

Natpet achieved fourth place in "King Khalid Award for Responsible Competitiveness 2011". The company continues its policy to apply quality standards and requirements of ISO certification regulations. The Saudization percentage stands at 54%, which is Excellent in terms of the Ministry of Labor rating.

Natpet is basically an export oriented company with 98% of the total sales exported to Singapore, Turkey, Europe, China and other Asian countries as well as to countries in the Middle East and North Africa (MENA). The sales revenue during 2011 amounted to SR 1,471.8 million through sale of 264,172 tons of polypropylene of different grades.

Alujain along with a related party has achieved 98.75% co-ownership in Zain Industries Company Ltd. (Zain), formerly Arab Pesticide Industries Company Ltd. (Mobeed). The investment in Zain is not consolidated in the accompanying consolidated financial statements because Alujain's control is temporary. Zain currently produces certain select FMCG products and the products introduced in the domestic market have been received well. The sales for the period January-December 2011 stands at SR 9.04 million. Zain plans to move into the homecare, personal and institutional & industrial specialties with a wider slate of product offerings. In addition, Zain already has some agrochemicals and public health products registered and it envisions to launch some new products during 2012.

In compliance with the standards issued by the Saudi Organization of Certified Public Accountants (SOCPA), the financial statements of Alujain are consolidated to include NATPET as a subsidiary.

I. FINANCIAL HIGHLIGHTS

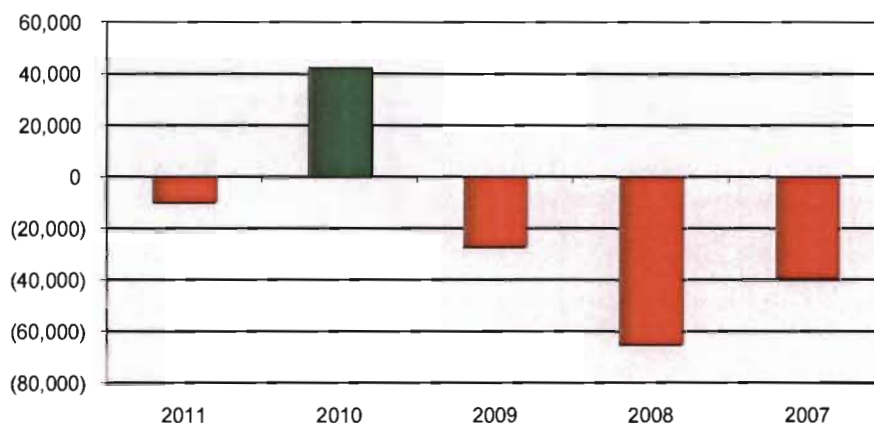
The current year's Profit and Loss (P&L) Summary reflects consolidated results whereby sales of 264,169 metric tons of polypropylene products reached SR1,471.8 million, attained a gross profit of SR 159 million but incurred a net loss of SR 10 million due to a combination of factors such as decrease in polypropylene market prices, lower sales volume, higher cost of feedstock and increased finance charges.

A. Five-Years Profit and (Loss) Summary*

	Year ended December 31				
	2011 (SR '000)	2010 (SR '000)	2009 (SR '000)	2008 (SR '000)	2007 (SR '000)
Sales	1,471,866	852,133	0	0	0
Cost of sales	(1,313,054)	(673,116)	0	0	0
Gross profit	158,812	179,017	0	0	0
Operating expenses	(64,293)	(73,569)	(67,779)	(61,863)	(59,400)
Net operating income (loss)	94,519	105,448	(67,779)	(61,863)	(59,400)
Impairment loss on delay of plant start-up	0	(177,750)	0	0	0
Insurance & contractor's compensations	0	177,750	0	0	0
Financial charges	(95,094)	(36,900)	0	0	0
Net other income (expenses)	(7,091)	12,784	21,027	(30,920)	12,331
Profit (Loss) before Zakat	(7,666)	81,332	(46,752)	(92,783)	(47,069)
Zakat	(1,557)	(7,532)	(810)	(5,003)	(14,416)
Profit (Loss) Before Minority Interest	(9,223)	73,800	(47,562)	(97,786)	(61,485)
Minority Interest*	(729)	(31,618)	20,284	32,684	22,039
Net Profit (Loss)	(9,952)	42,182	(27,278)	(65,102)	(39,446)

* Minority interest represents 42.6% share of other shareholders in NATPET.

Five-Years Net Profit / (Loss) Chart
(Amounts in SR '000)



B. Comparative Operating Results (2 years):

The group incurred a consolidated loss of SR 9.95 million during 2011 as compared to a consolidated profit of SR 42.18 million during 2010. The 2011 loss was mainly due to a planned shut-down of the subsidiary's propylene/polypropylene complex during the 2nd quarter of 2011 for a period of Forty Nine (49) days for implementing production and equipment enhancements, decrease in polypropylene prices, lower sales volume, higher cost of sales due to higher feedstock prices and higher finance charges.

The net loss before Zakat in 2011 is SR7.7 million as compared to the 2010 pre-Zakat profit of SR81.3 million.

Two years comparative operating results
(Consolidated figures)

	Year ended on December 31		
	2011 (SR '000)	2010 (SR '000)	Net Changes (SR '000)
Sales	1,471,866	852,133	619,733
Cost of sales	(1,313,054)	(673,116)	(639,938)
Gross profit	158,812	179,017	(20,205)
Operating expenses	(64,293)	(73,569)	9,276
Net operating income (loss)	94,519	105,448	(10,929)
Impairment loss on delay of plant start-up	0	(177,750)	177,750
Insurance & contractor's compensations	0	177,750	(177,750)
Financial charges	(95,094)	(36,900)	58,194
Net other income	(7,091)	12,784	(19,875)
Profit (Loss) before Zakat	(7,666)	81,332	(88,998)
Zakat	(1,557)	(7,532)	5,975
Profit (Loss) Before Minority Interest	(9,223)	73,800	(83,023)
Minority Interest*	(729)	(31,618)	30,889
Net Profit (Loss)	(9,952)	42,182	(52,134)

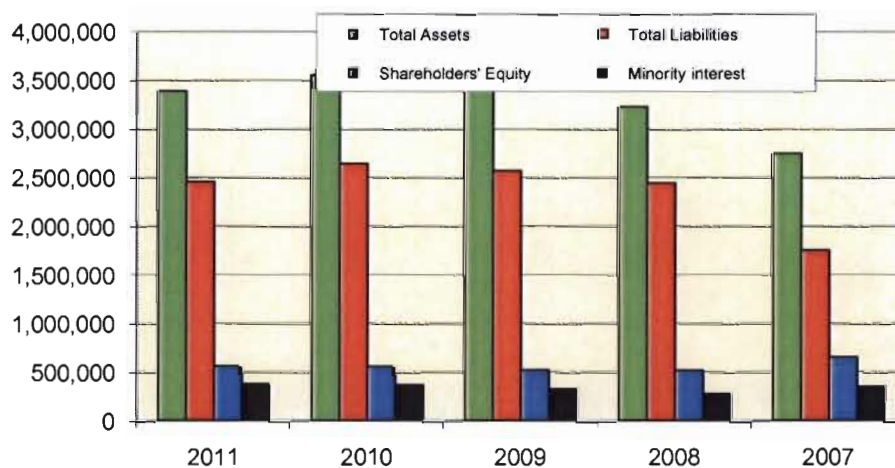
* Minority interest represents 42.6% share of other shareholders in NATPET.

C. Summary of Financial Position

	As at December 31				
	2011 (SR '000)	2010 (SR '000)	2009 (SR '000)	2008 (SR '000)	2007 (SR '000)
ASSETS					
Current assets	522,836	733,980	340,328	340,798	310,095
Non-current assets	2,832,468	2,825,451	3,065,344	2,887,918	2,436,889
Total Assets	3,355,304	3,559,431	3,405,672	3,228,716	2,746,984
LIABILITIES AND EQUITY					
Current liabilities	648,280	516,941	545,109	282,659	139,821
Non-current liabilities	1,773,704	2,122,641	2,020,007	2,158,011	1,609,355
Total Liabilities	2,422,037	2,639,582	2,565,116	2,440,670	1,749,176
Shareholders' Equity	557,208	554,164	518,551	515,423	650,510
Minority interest *	376,059	365,685	322,005	272,623	347,298
Total Liabilities & Shareholders' Equity	3,355,304	3,559,431	3,405,672	3,228,716	2,746,984

*Minority interest represents 42.6% share of other shareholders in NATPET.

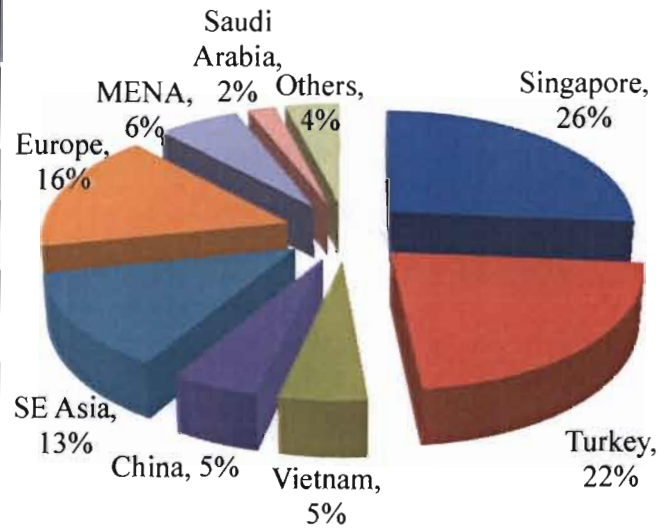
**Five-Year Balance Sheet Chart
(Amounts in SR '000)**



D. Geographical Analysis of Consolidated Revenue:

Essentially, the company's revenue comes from its subsidiary selling its products in and out of Saudi Arabia, as presented in the following table and chart:

Geographical Analysis of Consolidated Revenue		
Country	Qty. (MT)	%age
Noble Resources S.A. (Off Taker)		
Singapore	69,138	26%
Turkey	58,088	22%
Vietnam	13,662	5%
China	12,746	5%
Other Asian countries	35,567	13%
NATPET (Direct Marketing)		
Europe	42,167	16%
MENA	16,873	6%
Saudi Arabia	4,867	2%
Others	11,064	4%
Total	264,172	100%



II. MAJOR EVENTS IN 2011

- (a) Mr. Khalid Abdalrazaq Al Nafisee, director resigned and a replacement director Mr. Abdullah Muhammed N. Rehami was appointed by the Board for the period ending on 31/12/2014. The matter will be presented for ratification at the forthcoming shareholders meeting.
- (b) NATPET's PP Complex was shut-down during the 2nd quarter of 2011 for a period of Forty Nine (49) days for implementing production and equipment enhancements which resulted in 60K tons of lost polypropylene production/sales worth SR350 million according to prevailing market at that time. This turnaround procedure was part of the subsidiary's operating budget. The Complex also had an unplanned shutdown from September 26, 2011 until October 18, 2011 that resulted in 16K tons of lost polypropylene production/sales worth SR90 million.
- (c) Arab Pesticide Industries Company (Mobeed) submitted and secured new amended Articles of Association, by which it amended its objectives, incorporated new/updated shareholding and changed its name to "Zain Industries Company". It also secured amended commercial registration and is in the process of securing new industrial license.

- (d) New Board of Directors was elected at the shareholders' meeting held on 6/6/2011. The new board will serve in the next three years starting 01/01/2012.
- (e) The shareholders approved the new Corporate Governance Rules at the meeting held on 6/6/2011.
- (f) The Board of Directors, in its meeting held on 17/10/2011, formed a "Remuneration & Compensation Committee".

III. ZAKAT AND OTHER AMOUNTS PAID TO THE GOVERNMENT

On a standalone basis, Alujain has made total provisions of SR 0.75 million for 2011 estimated Zakat expenses.

The Company has filed final Zakat returns for 2003 through 2010 and obtained restricted Zakat certificates from the DZIT. An initial Zakat assessment of SR 5.4 million for the Zakat years 2003 to 2007 has been received from the DZIT. The Company is planning to submit an appeal against such assessment.

Following is a summary of amounts paid by Alujain to the Government:

	2011 (SR '000)	2010 (SR '000)
Zakat	838	810
General Organization for Social Insurance	246	123
Tadawui	400	432
Registration, visas and other expenses	39	26
Total amounts paid to the Government	1,523	1,391

IV. SUBSIDIARY COMPANY

National Petrochemical Industrial Company (Natpet):

Natpet is a closed joint stock company incorporated in the Kingdom of Saudi Arabia with its head office in Jeddah and PP Complex in Yanbu Industrial City. The authorized and paid up capital comprised of 107 million shares of SR10 per share as at 31 December 2011.

Alujain currently holds 57.4% of the total equity of Natpet.

Natpet had signed loan agreements with local banks, PIF and SIDF in order to finance the construction of its project. Following are the loan details (*all amounts in '000 SAR*):

Description of loan	Terms of loans	Original loans	Loan repayments		Outstanding balances
			Prior year	Current year	
Commercial banks syndication loan	Term loan, 10 yrs	1,176,070	164,526	120,846	890,698
Public Investment Fund loan	Term loan, 10 yrs	750,000	0	75,000	675,000
SIDF Loan	Interest free, 7 yrs	400,000	15,000	40,000	345,000
Others	No fixed repayment period	21,645	0	0	21,645
Total			179,526	235,846	1,932,343

The SIDF loan is secured by a mortgage over the fixed assets of the PP Complex and corporate guarantees from its shareholders wherein Alujain's guarantee is 57.4%. The Commercial Banks' syndication loan is secured by a second charge on the subsidiary's assets.

SAFETY RECORD:

Natpet has an excellent record for Health, Safety and the Environment. Since construction began in 2005, Natpet and its contractors who built the plant, have completed over 20 million man-hours with only one minor Lost Time Incident which occurred in early 2010.

V. ASSOCIATE COMPANY

Zain Industries Company Ltd (formerly MOBEED):

Zain Industries is a limited liability company incorporated in the Kingdom of Saudi Arabia with its head office in Jeddah and plant in Jubail Industrial City. Zain currently produces certain select FMCG products and the products introduced in the domestic market have been received well. The sales for the period January-December 2011 stands at SR 9.04 million. Zain plans to move into the homecare, personal and institutional & industrial specialties with a wider slate of product offerings. In addition, Zain already has some agrochemicals and public health products registered and it envisions to launch some new products during 2012. Alujain along with a related party continuously seeks to fully acquire Zain Industries and a 98.75% co-ownership of Zain has already been achieved.

VI. BOARD OF DIRECTORS

A. Constitution of the Board of Directors:

During 2011 the Board of Directors consisted of nine directors as follows:

Names	Executive	Non-executive	Independent
Khalid A. Y. Zainal Alireza	✓		
Matouq Hassan Jannah		✓	
Khalid Ibrahim Zagzoog	✓		
Abdallah Sadiq Dahlan		✓	✓
Ali Abdulla Kanoo		✓	✓
Adnan Kamel Salah		✓	✓
Omar Hashim Khalifati		✓	✓
Mohammad Ali Al-Naki		✓	✓
Khalid Abdalrazaq Al Nafisee*		✓	✓

* Mr. Khalid Abdalrazaq Al Nafisee resigned and Mr. Abdullah Muhammed N. Rehaimi was elected effective 01/01/2012.

B. Meetings:

During the Year 2011 the Board of Directors held 4 meetings as follows:

Directors	Mtg# 72		Mtg# 73		Mtg# 74		Mtg# 75		Total Present	Total Proxy	Attendance Percentage
	16/2/11		1/6/11		17/10/11		26/12/11				
	Present	Proxy	Present	Proxy	Present	Proxy	Present	Proxy			
Khalid A.Y. Zainal Alireza	✓		✓		✓		✓		4		100%
Matouq Hassan Jannah	✓		✓		✓		✓		4		100%
Abdallah Sadiq Dahlan				✓	✓		✓		2	1	50%
Ali Abdulla Kanoo	✓			✓	✓		✓		3	1	75%
Adnan Kamel Salah	✓		✓		✓		✓		4		100%
Omar Hashim Khalifati	✓		✓		✓		✓		4		100%
Khalid Ibrahim Zagzoog	✓		✓		✓		✓		4		100%
Mohammad Ali Al-Naki	✓		✓			✓		✓	2	2	50%
Khalid Abdalrazaq Al Nafisee									0		0%

C. Directorships in other Joint Stock Companies (only listed and traded):

Director	Company
Khalid A.Y. Zainal Alireza	Saudi Cable Company
Matouq Hassan Jannah	-
Khalid Ibrahim Zagzoog	-
Abdallah Sadiq Dahlan	-
Ali Abdulla Kanoo	-
Adnan Kamel Salah	-
Omar Hashim Khalifati	-
Mohammad Ali Al-Naki	-
Khalid Abdalrazaq Al Nafisee	-

D. Board Committees:

Audit Committee:

i) Mandate:

The main objectives of the committee include ensuring the adequacy and soundness of the internal control structure, financial accounting and reporting policies and procedures as well as ensuring effectiveness of the external audit function. It also reviews the Company's financial statements.

ii) Audit Committee Members:

Members	Non-executive	Shareholder	Position
Omar Hashim Khalifati	✓	✓	Chairman
Abdallah Sadiq Dahlan	✓	✓	Member
Ali Abdulla Kanoo	✓	✓	Member
Asad Hameed	✓	✓	Member

iii) Meetings:

The committee held four meetings during 2011 as follows:

	Mtg # 40	Mtg # 41	Mtg # 42	Mtg # 43	Total	Attendance Percentage
	15/2	25/6	17/10	26/12	Attend	
Omar Hashim Khalifati	✓	✓	✓	✓	4	100%
Abdallah Sadiq Dahlan	✓	-	✓	✓	3	75%
Asad Hameed	✓	✓	✓	✓	4	100%
Ali Abdulla Kanoo	-	-	✓	✓	2	50%

Remuneration & Compensation Committee:

The Board of Directors, in its meeting held on 17/10/2011, formed a 'Remuneration & Compensation Committee.

Members	Position
Khalid A.Y. Zainal Alireza	Chairman of the Committee
Mohammad Ali Al-Naki	Board Member
Matouq Hassan Jannah	Board Member
Khalid Ibrahim Zagzoog	Board Member

E. Movement in Shares Owned By Directors and Their Immediate Family Members

The following table includes a description of any interest related to the members of the Board of Directors, including their wives and minor children, in the stocks or credit instruments of the company:

Name	At start of the year		Net changes		At end of the year	
	Quantity	%	Quantity	%	Quantity	%
Khalid A.Y. Zainal Alireza	684,035	0.988%	173,181	0.25%	857,216	1.239%
Matouq Hassan Jannah	1,200	0.002%	--	--	1,200	0.002%
Khalid Ibrahim Zagzoog	2,500	0.004%	1,000	0.001%	3,500	0.005%
Abdallah Sadiq Dahlan	1,000	0.001%	--	--	1,000	0.001%
Ali Abdulla Kanoo	--	--	4,520	0.007%	4520	0.007%
Adnan Kamel Salah	2,000	0.003%	--	--	2,000	0.003%
Omar Hashim Khalifati	22,060	0.032%	--	--	22,060	0.032%
Khalid Abdalrazaq Al Nafisee	1,000	0.001%	--	--	1,000	0.001%
Mohammad Ali Al-Naki	1,000	0.001%	--	--	1,000	0.001%

F. Movement in Shares Owned By Senior Executives and Their Immediate Family Members

The following table includes a description of any interest related to the members of the Senior Executives, including their wives and minor children, in the stocks or credit instruments of the Company:

Name	At start of the year		Net changes		At end of the year	
	Quantity	%	Quantity	%	Quantity	%
Marwan N. Nusair President & COO	2,400	0.003%	--	--	2,400	0.003%
Rajiv Thakur VP – Business Development	Nil	Nil	Nil	Nil	Nil	Nil
Saleem Akhtar VP - Finance	Nil	Nil	Nil	Nil	Nil	Nil

VII. REMUNERATION OF CHAIRMAN, BOARD OF DIRECTORS, AND TOP EXECUTIVES

	Board Members		Highest paid senior executives including COO & VP-Finance*
	Executive (1 person)	Non-executive/ Independent (8 persons)	
Salaries and compensation	600,000	-	1,183,000
Allowances	12,000	69,000	388,750
Periodic and annual bonuses	-	-	-
Incentive plans	-	-	-
Other Compensations	-	-	501,524
Total	612,000	69,000	2,073,274

* Remuneration for 3 executives including COO, VP – Finance and VP – Business Development. Alujain has less than 5 executives.

REMUNERATION OF AUDIT COMMITTEE

Position	Meeting Fees
Chairman	12,000
Members	18,000
Total	30,000

VIII. TRANSACTIONS WITH RELATED PARTIES

A portion of the Company's general and administrative expenses, shared services including project-related costs are charged by affiliates by way of sharing the cost of some common services. Prices and terms of payment are approved by management.

(a) Summary and nature of transactions

Party	Board Member	Nature of dealing	Amount (SR '000)
Board of Directors		Chairman's compensation and directors' meeting attendance fees	1,461
Hidada Company Limited	Khalid A.Y. Zainal Alireza	Joint expenses charged by the group	90
Saudi Cable Company	Khalid A.Y. Zainal Alireza	Joint expenses charged by the group	67
Saudi Cable Company	Khalid A.Y. Zainal Alireza	Shared services charged to the group	144
Xenel Industries Co. Ltd.	Khalid A.Y. Zainal Alireza	Shared services charged to the group	10,310
Safra Company Limited	Khalid A.Y. Zainal Alireza Khalid Ibrahim Zagzoog Matouq Hassan Jannah	Joint expenses charged to the group	4,847
Safra Company Limited	Khalid A.Y. Zainal Alireza Khalid Ibrahim Zagzoog Matouq Hassan Jannah	Shared consultancy expenses charged by the group	15
Xeca International for Information Technology	Khalid A.Y. Zainal Alireza	Information technology services charged to the group	527
Zain Industries Co.	Marwan Nusair Nusair Matouq Hassan Jannah	Advances provided by the group	318
Alireza Travel & Tourism	Khalid A.Y. Zainal Alireza	Airline tickets charged to the group	1,795

- (b) There were no transactions entered into during the year 2011 between the Company and its senior managers except for the remunerations as presented in section VII.

IX. PROFIT DISTRIBUTION POLICY

The annual net profits achieved – after deducting all general expenses & other costs – shall be distributed as follows:

10% of the net profits shall be set aside to form a statutory reserve, and the ordinary general assembly may stop such a procedure when the said reserve amounts to half of the Company capital.

From the balance, a first payment not less than 5% of the paid capital, shall be distributed as dividends to the shareholders.

A percent of not more than 10% of the net profits shall be allocated, after that, as a remuneration for the members of the board of directors, provided, however, that the member remuneration shall not exceed the amount determined by the instructions issued by the Ministry of Commerce to this effect.

Then, the balance shall be distributed among the shareholders as an additional share of the profits, or it may be carried forward to the following years, in the way agreed upon by the general assembly.

The dividends to be distributed among shareholders shall be paid in the place and at the time determined by the board of directors, taking into consideration the instructions issued by the Ministry of Commerce in this regards.

X. POTENTIAL BUSINESS RISKS

The Company and its subsidiary are subject to the risk of global economic downturn which will likely impact demand for petrochemical products, declining availability of credit facilities and the risk of changes in the rate of financial charges on its financial assets and liabilities, including bank deposits, bank facilities and term loans.

Alujain's major investment is Natpet and therefore, any risks faced by Natpet will impact Alujain's financial results.

XI. CORPORATE GOVERNANCE

The Company is committed to apply all rules listed in Corporate Governance Regulations. It is following all the provision of Corporate Governance regulations except as detailed below:

Corporate Governance Rules	Reasons
Article 5: Shareholders Rights related to the General Assembly	Implemented Except Para "F" covering shareholders participation in preparing OGA Agenda.
Article: 6 Voting Rights	
Article 6 - b) In voting in the General Assembly for the nomination to the board members, the accumulative voting method shall be applied.	Not applied yet. It requires amendment to the Articles of Association. The BOD has passed a resolution to recommend to the shareholders such amendment by calling for an EOGA.
Article 6 - d) Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.	We have not had a chance to get those reports.
Article 7: Dividends Rights of Shareholders	Implemented. No dividends are proposed for the year. Whenever dividends are determined the rules as well as the Companies' Law and Articles of Association apply.

XII. BOARD DECLARATIONS

1. The Company's financial statements were prepared in accordance with the accounting principles generally accepted in the Kingdom of Saudi Arabia and such accounting principles are applied on consistent basis.
2. The Company maintains proper books of accounts.
3. The external auditor has given an unqualified opinion on the financial statements.
4. The Company's Internal Control has been developed on sound basis and is effectively being carried out. The Company has an adequate internal audit committee and internal audit function which ensure that satisfactory internal controls are in place. The internal audit committee believes that there are no misstatements of accounting information that could have material effect on the judgment of the users of the attached financial statements.
5. There is absolutely no trace of doubt that the Company is a going concern and that Alujain and its subsidiaries are not planning to discontinue any of their operations.
6. The Company has not issued nor redeemed any debt or financial instruments such as stock options or stock rights that may be converted into shares.
7. There was no material contracts awarded to any related parties during the year. Related party transactions are detailed in section VIII of this report.
8. There were no outstanding loans during the year, except the loans taken by the subsidiary, as mentioned in section IV of this report.
9. There were no loans given to any of its directors.
10. The Company has not made any deals relating to its own stocks.

11. No waiver of compensation has been received from any member of the Board.
12. There were no share dealings entered by the Company with any of its directors or immediate members of their families.
13. No waiver of rights has been received from any shareholder.
14. The Company has not made any investments or created reserves for its employees, except for, as is required by Saudi Labor Law and company policies.

XIII. BOARD OF DIRECTORS' RECOMMENDATIONS TO THE SHAREHOLDERS

1. Approval of the Board of Directors' Report for 2011.
2. Approval of the 2011 year-end financial statements and external auditors' report.
3. Approval of the appointment of external auditors for year 2012 from amongst the firms nominated by the Audit Committee.
4. Absolving the Board of Directors of their responsibilities for the financial year ended 31/12/2011.
5. Approval of the businesses and agreements made between the company and related parties contained in Section VIII and in the notes to the accompanying financial statements.

The Board of Directors wishes to express its appreciation and gratitude to the Custodian of the two Holy Mosques, King Abdullah Bin Abdul Aziz Al Saud, HRH Crown Prince Naif Bin Abdul Aziz Al Saud, Deputy Prime Minister and Interior Minister, and the Government, for their continued support.

The Board would also like to thank the shareholders for their support and the management and staff of Alujain for their efforts which helped to make 2011 a successful year.

BOARD OF DIRECTORS

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
AND INDEPENDENT AUDITORS' REPORT

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Page
Independent auditors' report	2
Consolidated balance sheet	3
Consolidated income statement	4
Consolidated cash flow statement	5 – 6
Consolidated statement of changes in shareholders' equity	7
Notes to the consolidated financial statements	8 – 25

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alujain Corporation
(A Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying consolidated balance sheet of **Alujain Corporation** (a Saudi Joint Stock Company) (the "Company") and its subsidiary (collectively "The Group") as of December 31, 2011 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company to comply with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group'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 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's bylaws with respect to the preparation and presentation of consolidated financial statements.

PricewaterhouseCoopers

By: 
Sami Farah
Licence Number 168



February 25, 2012

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Consolidated balance sheet
(All amounts in Saudi Riyals thousand unless otherwise stated)

	Note	As at December 31,	
		2011	2010
ASSETS			
Current assets			
Cash and cash equivalents	4	86,302	311,944
Investments in Murabaha Funds		3,513	7,523
Accounts receivable	5	97,384	118,485
Prepayments and other receivables	6	32,802	76,115
Due from related parties	7	4,830	5,172
Inventories	8	<u>298,005</u>	<u>214,741</u>
		<u>522,836</u>	<u>733,980</u>
Non-current assets			
Security deposit	25	31,529	31,277
Investments	9	13,181	13,485
Projects under study	10	11,586	5,479
Advance against investment	11	11,646	-
Intangible assets	12	48,738	58,132
Property, plant and equipment	13	<u>2,715,788</u>	<u>2,717,078</u>
		<u>2,832,468</u>	<u>2,825,451</u>
Total assets		<u>3,355,304</u>	<u>3,559,431</u>
Liabilities and shareholders' equity			
Current liabilities			
Current portion of long-term loans	14	278,280	188,968
Accounts payable		170,921	117,912
Accruals and other liabilities	15	181,546	193,057
Due to related parties	7	9,045	2,488
Zakat provision	16	<u>8,541</u>	<u>14,516</u>
		<u>648,333</u>	<u>516,941</u>
Non-current liabilities			
Long-term loans	14	1,654,063	1,979,221
Derivative financial instruments	17	106,998	132,796
Employees' termination benefits	18	<u>12,643</u>	<u>10,624</u>
		<u>1,773,704</u>	<u>2,122,641</u>
Total liabilities		<u>2,422,037</u>	<u>2,639,582</u>
Equity			
Equity attributable to shareholders of the Company:			
Share capital (69,200,000 shares of SR 10 per share)		692,000	692,000
Statutory reserve	19	17,316	17,316
Cumulative changes in fair values		(49,997)	(62,993)
Accumulated deficit		<u>(102,111)</u>	<u>(92,159)</u>
Total shareholders' equity		<u>557,208</u>	<u>554,164</u>
Minority interest		<u>376,059</u>	<u>365,685</u>
Total equity		<u>933,267</u>	<u>919,849</u>
Total liabilities and equity		<u>3,355,304</u>	<u>3,559,431</u>

The attached notes on pages 8 to 25 form an integral part of these consolidated financial statements.

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Consolidated income statement
(All amounts in Saudi Riyals thousand unless otherwise stated)

	Note	<u>Year ended December 31,</u>	
		2011	2010
Sales		1,471,866	852,133
Cost of sales		<u>(1,313,054)</u>	<u>(673,116)</u>
Gross profits		158,812	179,017
Operating expenses			
Selling, distribution and general and administrative expenses	21	<u>(64,293)</u>	<u>(73,569)</u>
Income from operations		94,519	105,448
Other income (expenses)			
Financial charges	14	(95,094)	(36,900)
Project under study written-off	10	(5,110)	-
Capital gain on sale of shares	22	-	11,301
Foreign currency exchange gain		3,426	6,079
Derivative financial instruments	17	3,157	(758)
Amortization of intangible assets	12	(9,394)	(3,870)
Impairment loss on delay of plant start-up	13	-	(177,750)
Insurance compensations on delay of plant start-up	13	-	46,500
Contractor's compensations on delay of plant start-up	13	-	131,250
Other income		1,134	663
Impairment provision against available for sale investment	9	<u>(304)</u>	<u>(631)</u>
(Loss) income before zakat and minority interest		(7,666)	81,332
Zakat	16	<u>(1,557)</u>	<u>(7,532)</u>
(Loss) income before minority interest		(9,223)	73,800
Minority interest		<u>(729)</u>	<u>(31,618)</u>
Net (loss) income for the year		<u><u>(9,952)</u></u>	<u><u>42,182</u></u>
(Loss) earnings per share:			
		<u>(Saudi Riyals)</u>	
Income from operations	20	<u>1.37</u>	<u>1.52</u>
Non operating loss	20	<u>(1.48)</u>	<u>(0.35)</u>
Net (loss) income for the year	20	<u>(0.14)</u>	<u>0.61</u>

The attached notes on pages 8 to 25 form an integral part of these consolidated financial statements.

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)

Consolidated cash flow statement

(All amounts in Saudi Riyals thousand unless otherwise stated)

	Note	<u>Year ended December 31,</u>	
		2011	2010
Cash flow from operating activities			
Net (loss) income for the year		(9,952)	42,182
<u>Adjustments for non-cash items</u>			
Depreciation	13	143,592	60,563
Amortization of intangible assets	12	9,394	3,870
Impairment provision against available for sale investment	9	304	631
Project under study written-off		5,110	-
Zakat provision	16	1,557	7,532
Derivative financial instruments		(3,157)	758
Capital gain on sale of shares	22	-	(11,301)
Gain on sale of property and equipment		(21)	-
Income from investments in Murabaha Funds		(35)	(67)
Gain applicable to minority interest		729	31,618
Employees' termination benefits provision	18	3,106	3,316
Financial charges		95,094	36,900
Provision for slow moving inventories		275	366
<u>Changes in working capital:</u>			
Accounts receivable		21,101	(59,945)
Prepayments and other receivables		43,313	(15,111)
Due from related parties		342	(3,449)
Inventories		(83,539)	(47,426)
Accounts payable		43,364	34,755
Accruals and other liabilities		(11,511)	(69,522)
Due to related parties		6,557	(8,927)
Employees' termination benefits paid	18	(1,087)	(1,227)
Zakat paid	16	(7,532)	(1,288)
Net cash generated from operating activities		<u>257,004</u>	<u>4,228</u>
Cash flow from investing activities			
Capital work in progress, net		-	185,477
Movement of short-term investments in Murabaha Funds		4,045	(7,456)
Security deposit paid		(252)	(1,159)
Additions to projects under study		(11,217)	(2,432)
Advance against investments paid		(11,646)	-
Purchase of property and equipment	13	(142,328)	(5,769)
Proceed from sale of property and equipment		47	-
Payments for additional shares	22	-	(16,143)
Proceed from sale of shares	22	-	27,444
Additional investments in an associate		-	(1,288)
Net cash (utilized in) generated from investing activities		<u>(161,351)</u>	<u>178,674</u>
Cash flow from financing activities			
Movement in long-term loans	14	(235,846)	101,724
Changes in minority interest		9,645	12,062
Financial charges paid		(95,094)	(36,900)
Net cash (utilized in) generated from financing activities		<u>(321,295)</u>	<u>76,886</u>
Net change in cash and cash equivalents		(225,642)	259,788
Cash and cash equivalents - beginning of the year		<u>311,944</u>	<u>52,156</u>
Cash and cash equivalents - end of the year		<u>86,302</u>	<u>311,944</u>

The attached notes on pages 8 to 25 form an integral part of these consolidated financial statements.

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Consolidated cash flow statement
(All amounts in Saudi Riyals thousand unless otherwise stated)

		<u>Year ended December 31,</u>	
	Note	2011	2010
Supplementary information for non-cash transactions			
Impairment loss on delay of plant start-up recovered through insurance compensations	13	<u>-</u>	<u>177,750</u>
Amortization of deferred financial charges transferred to work-in-progress	12	<u>-</u>	<u>1,879</u>
Work-in-progress transferred to property, plant and equipment	13	<u>-</u>	<u>2,761,234</u>

The attached notes on pages 8 to 25 form an integral part of these consolidated financial statements.

ALUJAIN CORPORATION

(A Saudi Joint Stock Company)

Consolidated statement of changes in shareholders' equity

(All amounts in Saudi Riyals thousand unless otherwise stated)

	Note	Share capital	Statutory reserve	Cumulative changes in fair values	Accumulated deficit	Total shareholders' equity	Minority interest	Total equity
January 1, 2011		692,000	17,316	(62,993)	(92,159)	554,164	365,685	919,849
Net loss for the year		-	-	-	(9,952)	(9,952)	-	(9,952)
Net income for the year attributable to minority interest		-	-	-	-	-	729	729
Net change during the year		-	-	-	-	-	9,645	9,645
Fair value adjustments	2	-	-	12,996	-	12,996	-	12,996
December 31, 2011		<u>692,000</u>	<u>17,316</u>	<u>(49,997)</u>	<u>(102,111)</u>	<u>557,208</u>	<u>376,059</u>	<u>933,267</u>
January 1, 2010		692,000	17,316	(56,424)	(134,341)	518,551	322,005	840,556
Net income for the year		-	-	-	42,182	42,182	-	42,182
Net income for the year attributable to minority interest		-	-	-	-	-	31,618	31,618
Net change during the year		-	-	-	-	-	12,062	12,062
Fair value adjustments	2	-	-	(6,569)	-	(6,569)	-	(6,569)
December 31, 2010		<u>692,000</u>	<u>17,316</u>	<u>(62,993)</u>	<u>(92,159)</u>	<u>554,164</u>	<u>365,685</u>	<u>919,849</u>

The attached notes on pages 8 to 25 form an integral part of these consolidated financial statements.

ALUJAIN CORPORATION

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2011

(All amounts in Saudi Riyals thousands unless otherwise stated)

1 GENERAL INFORMATION

Alujain Corporation (the "Company") and its subsidiary (collectively the Group) consist of the Company and its Subsidiary National Petrochemical Industrial Company (NATPET) and is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia under Ministerial Decision No. 694, dated Jamad Thani 15, 1412H (corresponding to December 21, 1991). The Company obtained its Commercial Registration on Rajab 3, 1412H (corresponding to January 7, 1992).

The objectives of the Company are to promote and invest in metal and petrochemical industries and other industrial projects.

The accompanying consolidated financial statements include the accounts of the Company and its Subsidiary, (NATPET) in which the Company owns 57.4 % ownership interest (2010 : 57.4%). NATPET is in the business of manufacturing and selling Polypropylene. NATPET's Polypropylene (PP) Complex in Yanbu Industrial City commenced commercial production on August 6, 2010.

At December 31, 2011, the Group's current liabilities exceeded its current assets. Management believes that the Group has adequate liquidity from its Subsidiary's operations and adequate financing facilities will remain available to the Group in the foreseeable future in order to meet its obligations as they become due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, as modified by revaluation of available-for-sale investments and derivative financial instruments to fair value, and in compliance with the accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management makes estimates and assumptions concerning the future which, by definition, seldom equal the related actual results.

2.3 Investments

a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

ALUJAIN CORPORATION

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2011

(All amounts in Saudi Riyals thousands unless otherwise stated)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Also, subsidiaries are not consolidated if the control is temporary. Such subsidiaries are accounted for using the equity method of accounting.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill and is tested annually for impairment and carried at cost, net of any accumulated amortization and impairment losses, if any.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of the Subsidiary has been changed where necessary to ensure consistency with the policies adopted by the Group. Subsidiaries over which the Company has temporary control or where they are under restructuring, are not consolidated and accounted for as associates.

b) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated amortization and impairment losses, if any.

The Group's share of its associates' post-acquisition income or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in investments in associates are recognized in the consolidated income statement.

c) Short-term investments in Murabaha funds

Short-term investments in Murabaha funds are carried at fair value and included under current assets. Changes in fair values are included in the consolidated income statement.

d) Available-for sale investments

Available-for-sale investments principally consist of less than 20% equity investments in certain quoted/unquoted investments. These investments are included in non-current assets unless management intends to sell such investments within twelve months from the balance sheet date. These investments are initially recognized at cost and are subsequently re-measured at fair value at each reporting date as follows:

- (i) Fair values of quoted securities are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments; and

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2011**

(All amounts in Saudi Riyals thousands unless otherwise stated)

- (ii) Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities or is based on the expected discounted cash flows.

Cumulative adjustments arising from revaluation of these investments are reported as separate component of equity as fair value reserve until the investment is disposed.

2.4 Foreign currency translations

- (a) Reporting currency

The financial statements of the Group are presented in Saudi Riyals which is the reporting currency of the Company.

- (b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

2.5 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the income statement and reported under "General and administrative expenses". When accounts receivable are uncollectible, they are written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited in the consolidated income statement.

2.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date, if any.

2.7 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation except construction in progress which is carried at cost. Depreciation is charged to the consolidated income statement, using straight-line method to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
• Plant and equipment	10 – 20
• Computers	3 – 4
• Furniture and fixtures	5 – 10
• Leasehold improvements	3 – 10 (or the period of the lease)
• Vehicles	4
• Office equipment	5 – 10
• Laboratory and safety tools	5 – 10

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the consolidated income statement.

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2011**

(All amounts in Saudi Riyals thousands unless otherwise stated)

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

The cost of planned turnaround are deferred and amortized over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortized deferred costs are immediately expensed and the new turnaround costs are amortized over the period likely to benefit from such cost.

2.8 Deferred charges

Costs that are not of benefit beyond the current period are charged to the consolidated income statement, while costs that will benefit future periods are capitalized. Deferred charges, reported under "Intangible assets" in the accompanying consolidated balance sheet, include certain indirect construction costs which are amortized over periods which do not exceed seven years. Deferred charges also include front-end fee paid on a loan from Saudi Industrial Development Fund ("SIDF"). Such charges are amortized over the term of the loan.

2.9 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads.

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

2.10 Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. 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 the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated income statement. Impairment losses recognized on intangible assets are not reversible.

2.11 Projects under study

Projects under study are stated at cost and are provided for to the extent that they may not be recoverable on the basis of a review of each project and an assessment of the outcome. Project costs are written off when a project is no longer considered viable.

ALUJAIN CORPORATION

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2011

(All amounts in Saudi Riyals thousands unless otherwise stated)

2.12 Borrowings

Borrowings are recognized equivalent to the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the consolidated income statement.

2.13 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

2.14 Provisions

Provisions are recognized, when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

2.15 Zakat

The Company and its Saudi Arabian subsidiary is subject to zakat in accordance with the regulations of the Department of Zakat and Income Taxes (DZIT). Provision for zakat for the company and its Saudi Arabian subsidiary is charged to the consolidated income statement. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company and its Saudi Arabian subsidiary withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income tax law.

2.16 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Group and charged to the consolidated income statement. The liability is calculated; as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

2.17 Derivative financial instruments

The Group uses derivative financial instruments (interest rate swaps) to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the statement of income.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documents include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be

ALUJAIN CORPORATION

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2011

(All amounts in Saudi Riyals thousands unless otherwise stated)

highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting years for which they were designated.

Cash flows hedge which meet the strict criteria for hedge accounting are accounted for by taking the gain or loss of the effective portion of the hedging instrument directly in equity, while any ineffective portion is recognized immediately in the consolidated income statement.

Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

2.18 Segment reporting

(a) Business segment

A business segment is a group of assets and operations:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

(b) Geographical segment

A geographical segment is a group of assets and operations engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

2.19 Revenue recognition

Revenues are recognized upon delivery of products and customer acceptance, if any. Revenues are shown net of discounts and transportation expenses, and after eliminating sales within the Group.

Revenue from sale made through the off-taker and marketer are recognized upon delivery and are recorded at provisional sales prices that are later adjusted based upon actual selling prices received by the off-taker and marketer from third parties net off actual selling and distribution costs incurred by the marketers as the marketing fee to cover all other marketing expenses. Adjustments are made, as they became known to the Group.

Dividend income is recognized when the right to receive payment is established.

ALUJAIN CORPORATION

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2011

(All amounts in Saudi Riyals thousands unless otherwise stated)

2.20 Selling, distribution and general and administrative expenses

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

2.21 Operating leases

Rental expenses under operating leases are charged to the consolidated income statement over the period of the respective lease.

2.22 Reclassification

Certain reclassifications have been made in the comparative 2010 consolidated financial statements to conform with 2011 presentation

3 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by senior management under policies approved by the board of directors. The most important types of risk are credit risk, currency risk, interest rate risk, price risk, liquidity risk and fair value and cash flow interest rate risks.

Financial instruments carried on the balance sheet include cash and cash equivalents, short-term investments in Murabaha Funds, due from related parties, security deposit, investments in associates and available for sale investment, advance against investment, short-term and long-term borrowings, due to related parties, Zakat, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each significant item.

Financial asset and liability are offset and net amounts reported in the financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

3.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group does not undertake significant transactions in currencies other than Saudi Riyals, US Dollars and to a lesser extent Euros. Management monitors such exposures on a regular basis. However, there were no significant foreign exchange contracts outstanding at December 31, 2011.

3.2 Fair value and cash flows interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of the financial instruments. The Group is subject to interest rate risk on its interest bearing assets and liabilities including security deposits, long term loans and derivative financial instrument.

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2011**

(All amounts in Saudi Riyals thousands unless otherwise stated)

The management limits the Group's interest rate risk by monitoring the changes in interest rate in the currencies in which its interest bearing assets and liabilities are denominated and through interest rate swaps, in which the Group agrees to exchange, at specified interval, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

3.3 Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the balance sheet as available for sale investment and investments in Murabaha Funds. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

3.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Cash is placed with banks with sound credit ratings.

The largest receivable balance (one off-taker) accounts for 74% of outstanding trade accounts receivable at December 31, 2011 (2010: 55%). Credit risk is managed by monitoring the off-taker balance and ensuring timely collection of the due balance.

Accounts receivable are carried net of provision for doubtful debts.

3.5 Liquidity risk

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 an 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 through committed credit facilities to meet any future commitments. Also see note (1).

3.6 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 Group's financial instruments are compiled under the historical cost convention, except for derivative financial instruments, and available for sale investment, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

4 CASH AND CASH EQUIVALENTS

	2011	2010
Cash in hand	203	155
Cash at banks	<u>86,099</u>	<u>311,789</u>
	<u>86,302</u>	<u>311,944</u>

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2011**

(All amounts in Saudi Riyals thousands unless otherwise stated)

5 ACCOUNTS RECEIVABLE

	2011	2010
Trade receivables	129,259	116,326
(Less) add: Net back adjustments	<u>(31,875)</u>	<u>2,159</u>
	<u>97,384</u>	<u>118,485</u>

Net back adjustments represent the variance between the actual sale price to end customers compared to the off-taker provisional prices.

6 PREPAYMENTS AND OTHER RECEIVABLES

	2011	2010
Prepayments	15,391	6,844
Security deposit	8,491	35,559
Advance to supplier	4,450	27,786
Employees advance	1,524	1,383
Other receivables	<u>2,946</u>	<u>4,543</u>
	<u>32,802</u>	<u>76,115</u>

7 RELATED PARTY MATTERS**7.1 Related party transactions**

A portion of the Company's general and administrative expenses and project - related costs are charged by affiliates. Prices and terms of payment are approved by management.

Significant transactions with related parties in the ordinary course of business included in the financial statements are summarized below:

Related parties	Nature of transactions	2011	2010
Board of Directors	Remunerations	1,461	742
Hidada Company Limited	Joint expenses charged by the Group	90	154
Saudi Cable Company	Joint expenses charged by the Group	67	103
Saudi Cable Company	Joint expenses charged to the Group	144	144
Xenel Industries Company Limited	Joint expenses charged to the Group	10,310	13,828
Safra Company Limited	Joint expenses charged to the Group	4,847	-
Safra Company Limited	Joint expenses charged by the Group	15	489
Safra Company Limited	Investment sold by the Group	-	27,444
Xeca International for Information Technology	Joint expenses charged to the Group	527	1,458
Chemglobal Limited	Joint expenses charged to the Group	-	135
Zain Industries Company (Zain)	Advance provided by the Group	318	3,315
Alireza Travel and Tourism	Joint expenses charged to the Group	1,795	-

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2011
(All amounts in Saudi Riyals thousands unless otherwise stated)

7.2 Related party balances

Significant year end balances arising from transactions with related parties are as follows:

	2011	2010
Due from related parties		
Zain Industries Company (Zain) (associate)	4,341	4,023
Hidada Company Limited (affiliate)	484	394
Alireza Travel and Tourism (affiliate)	5	-
Safra Company Limited (shareholder)	-	755
	<u>4,830</u>	<u>5,172</u>
Due to related parties		
Chemglobal Corporation (affiliate)	1,364	1,364
Saudi Cable Company (affiliate)	874	796
Safra Company Limited (affiliate)	4,077	-
Xenel Industries Company Limited (affiliate)	2,730	256
Xeca International for Information Technology (affiliate)	-	72
	<u>9,045</u>	<u>2,488</u>

8 INVENTORIES

	2011	2010
Finished goods	129,522	63,507
Raw materials	35,422	27,924
Work in progress	4,731	5,160
Spare parts and supplies, not held for sale	132,245	121,790
	<u>301,920</u>	<u>218,381</u>
Less: provision for slow moving inventories	<u>(3,915)</u>	<u>(3,640)</u>
	<u>298,005</u>	<u>214,741</u>

Movement in provision for slow moving inventories:

January 1	(3,640)	(3,274)
Additions	(275)	(366)
December 31	<u>(3,915)</u>	<u>(3,640)</u>

9 INVESTMENTS

	2011	2010
Investment in an associate - see (a) below	9,816	9,816
Available for sale investments - see (b) below	3,365	3,669
	<u>13,181</u>	<u>13,485</u>

(a) Investment in an associate as at December 31 is comprised of the following:

	2011	2010
Cost of investment	36,059	36,059
Provision for impairment	<u>(26,243)</u>	<u>(26,243)</u>
	<u>9,816</u>	<u>9,816</u>

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2011
 (All amounts in Saudi Riyals thousands unless otherwise stated)

The movement in the investment in an associate for the years ended December 31 is as follows:

	2011	2010
January 1	9,816	8,528
Additions during the year	<u>-</u>	<u>1,288</u>
December 31	<u>9,816</u>	<u>9,816</u>

The Company's investment in an associate represents its equity ownership in Zain Industries Company (Zain) (Formerly Arab Pesticide Industries Company). During 2008, Alujain acquired additional shares that increased its ownership from 25% to 93.08% and during 2009 it sold half of its ownership (46.54%) to a related party. The Company acquired further shares during 2010, increasing its ownership to 52.21% as of December 31, 2010 and 2011. Zain started commercial operations during late 2010 and is currently under a restructuring and stabilising period. The Company intends to share control with its related party subsequent to the stabilisation of operations in Zain. Since, Zain is currently under a restructuring phase and the control is temporary, the Company did not consolidate its investment in Zain.

(b) The movement in the available for sale investments for the years ended December 31 is as follows:

	2011	2010
January 1	3,669	4,300
Provision for impairment	<u>(304)</u>	<u>(631)</u>
December 31	<u>3,365</u>	<u>3,669</u>

Available for sale investment at December 31, 2011 and 2010, principally represent the Company's investment in a Saudi Closed Joint Stock Company.

10 PROJECTS UNDER STUDY

	2011	2010
January 1	5,479	3,047
Additions	11,217	2,432
Written off	<u>(5,110)</u>	<u>-</u>
December 31	<u>11,586</u>	<u>5,479</u>

Projects under study principally relate to the costs of new petrochemical projects at the initial stages, such as feasibility studies, market researches and other related expenses.

11 ADVANCE AGAINST INVESTMENT

The Subsidiary has signed a Joint Venture agreement with an entity based in the Netherlands to set up a manufacturing plant in Yanbu to produce staple fiber and non-woven geotextiles. The total cost of the project is expected to be Saudi Riyals 160 million of which 40% will be funded through equity and the remaining through debts. The Subsidiary will own a 50% stake in the Joint Venture. Advance against investment of Saudi Riyals 11.64 million at December 31, 2011 relate to the payments made by the Subsidiary for certain machinery and equipment for purpose of joint venture. The Subsidiary expects to adjust such payment against its share of capital. The legal formalities for forming and registering the Joint Venture in Saudi Arabia are currently in progress.

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2011**

(All amounts in Saudi Riyals thousands unless otherwise stated)

12 INTANGIBLE ASSETS

	2011	2010
Deferred financial charges	13,859	17,005
Other deferred charges	<u>34,879</u>	<u>41,127</u>
	<u><u>48,738</u></u>	<u><u>58,132</u></u>

Deferred financial charges principally relate to front end fees paid to the SIDF and are being amortized over the period of the loan. The movement of deferred financial charges are as follows:

	2011	2010
January 1	17,005	20,151
Amortization during the year charged to income statement	(3,146)	(1,267)
Amortization capitalized during the year	-	(1,879)
December 31	<u><u>13,859</u></u>	<u><u>17,005</u></u>

Other deferred charges principally relate to certain indirect construction costs incurred by the Group during the setting up of the plant. The movement of other deferred charges are as follows:

	2011	2010
January 1	41,127	43,730
Amortization during the year	(6,248)	(2,603)
December 31	<u><u>34,879</u></u>	<u><u>41,127</u></u>

13 PROPERTY, PLANT AND EQUIPMENT

	January 1, 2011	Additions	Disposals	December 31, 2011
Cost				
Plant and equipment	2,761,334	136,969	(38)	2,898,265
Computers	13,146	4,201	(31)	17,316
Furniture and fixtures	4,171	7	-	4,178
Leasehold improvements	2,266	384	-	2,650
Motor vehicles	2,939	744	(63)	3,620
Office equipment	2,953	23	(305)	2,671
Laboratory and safety tools	16	-	-	16
Total	<u>2,786,825</u>	<u>142,328</u>	<u>(437)</u>	<u>2,928,716</u>
Accumulated depreciation				
Plant and equipment	56,588	138,101	(13)	194,676
Computers	5,552	3,371	(30)	8,893
Furniture and fixtures	2,133	792	-	2,925
Leasehold improvements	1,592	249	-	1,841
Motor vehicles	1,943	562	(63)	2,442
Office equipment	1,935	513	(305)	2,143
Laboratory and safety tools	4	4	-	8
Total	<u>69,747</u>	<u>143,592</u>	<u>(411)</u>	<u>212,928</u>
Net book value	<u><u>2,717,078</u></u>			<u><u>2,715,788</u></u>

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2011

(All amounts in Saudi Riyals thousands unless otherwise stated)

	January 1, 2010	Additions	Disposals	Impairment loss	Transfer from work in progress	December 31, 2010
Cost						
Plant and equipment	-	100	-	-	2,761,234	2,761,334
Computers	8,477	4,819	(150)	-	-	13,146
Furniture and fixtures	4,068	103	-	-	-	4,171
Leasehold improvements	2,151	115	-	-	-	2,266
Motor vehicles	2,496	443	-	-	-	2,939
Office equipment	2,844	173	(64)	-	-	2,953
Laboratory and safety tools	-	16	-	-	-	16
Capital work in progress	2,944,832	130,675	(136,523)	(177,750)	(2,761,234)	-
Total	2,964,868	136,444	(136,737)	(177,750)	-	2,786,825
Accumulated depreciation						
Plant and equipment	-	56,588	-	-	-	56,588
Computers	3,827	1,875	(150)	-	-	5,552
Furniture and fixtures	1,357	776	-	-	-	2,133
Leasehold improvements	1,234	358	-	-	-	1,592
Motor vehicles	1,495	448	-	-	-	1,943
Office equipment	1,485	514	(64)	-	-	1,935
Laboratory and safety tools	-	4	-	-	-	4
Total	9,398	60,563	(214)	-	-	69,747
Net book value	2,955,470					2,717,078

The Group's plant and equipment are mortgaged with the Saudi Industrial Development Fund (SIDF) and a second charge by other commercial banks as security against the term loan received from them.

During the construction phase of the Subsidiary's plant, several instances occurred based on which the Subsidiary booked an impairment loss of Saudi Riyals 177.7 million against capital work in progress and charged it to the income statement for the year ended December 31, 2010.

The above mentioned impairment loss was covered under an insurance policy and certain penalty clauses in the contract with the project main contractor based on which, the Subsidiary received compensations under the insurance policy amounting to Saudi Riyals 46.5 million and compensation from the contractor amounting Saudi Riyals 131.25 million which were recognized in the income statement for the year ended December 31, 2010 as contractors' compensation.

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2011
(All amounts in Saudi Riyals thousands unless otherwise stated)

14 LONG TERM LOANS

The Subsidiary has signed loan agreements with syndication of commercial banks, Public Investment Fund (PIF) and Saudi Industrial Development Fund (SIDF) in order to finance the construction of its project. The loan balance is comprised of the following as of December 31:

	2011	2010
Commercial Banks' syndication	890,698	1,011,544
Public Investment Fund loan	675,000	750,000
SIDF Loan	345,000	385,000
Others	<u>21,645</u>	<u>21,645</u>
	1,932,343	2,168,189
Less: Current portion of long-term loans	<u>(278,280)</u>	<u>(188,968)</u>
Non-current portion of long term loans	<u>1,654,063</u>	<u>1,979,221</u>

The Subsidiary has signed a loan agreement with the Commercial Banks' syndication in February 2006. The term loan is secured by a second charge on the Subsidiary's assets. These loans carry borrowing costs at commercial rates and are repayable in 17 bi-annual installments commencing from the end of December 31, 2009. The installments due in the next 12 months are shown as a current liability.

The Subsidiary has signed a loan agreement with Public Investment Fund (PIF) in June 2008 for a loan of USD 125 million (Saudi Riyals 468.75 million) which was fully drawn in 2008. The Subsidiary signed an additional loan agreement with PIF in January 2010 for an amount of USD 75 million (Saudi Riyals 281.25 million) which was fully drawn during 2010. The term loan is repayable in 20 bi-annual installments starting on June 30, 2011. The installments due in the next 12 months are shown as a current liability.

The Subsidiary has signed a loan agreement with SIDF in August 2006 for an amount of Saudi Riyals 400 million which was fully drawn as at December 31, 2011 (2010: Saudi Riyals 400 million). The SIDF loan carries project evaluation fees amounting to Saudi Riyals 30 million, which was recorded as deferred financial charges (note 12). The balance of Saudi Riyals 13.9 million as at December 31, 2011 (2010: Saudi Riyals 17 million), (note 12) is being amortized over the term of the loan on a straight line basis. The SIDF term loan is repayable in 13 bi-annual installments starting in July 2010 and is secured by a mortgage over the fixed assets of the project and corporate guarantees and a comfort letter as follows:

	<u>Security type</u>	<u>%</u>
Xenel Industries Company Limited.	Corporate guarantee	25.9
Safra Company Limited	Corporate guarantee	5.0
Alujain Corporation	Corporate guarantee	57.4
GOSI	Comfort letter	11.7

The SIDF loan installments due in the next 12 months are shown as a current liability.

The purpose of the above loans is to finance the construction of the plant. Also, the Subsidiary has entered into a concurrent interest rate swap contract with local commercial banks to hedge the variable interest rate cash flows on the loan (see note 17).

The above loans carry several covenants. As at December 31, 2011, the current ratio of the Subsidiary fell below the required covenanted level under one of the loan agreements and the Subsidiary has advised the lender, accordingly. The Subsidiary and Group's management believes that the lender will continue with the existing repayment schedule.

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2011
(All amounts in Saudi Riyals thousands unless otherwise stated)

15 ACCRUALS AND OTHER LIABILITIES

	2011	2010
Accrued expenses	178,316	184,954
Advances from customers	3,230	7,995
Other liabilities	-	108
	<u>181,546</u>	<u>193,057</u>

16 ZAKAT MATTERS

Zakat computation for the years ended December 31, was based on the standalone financial statements for the Company and its Subsidiary.

a) Movement of Zakat provision during the years ended December 31 was as follows:

	2011	2010
Beginning balance	14,516	8,272
Provided during the year	1,557	7,532
Paid during the year	<u>(7,532)</u>	<u>(1,288)</u>
Ending balance	<u>8,541</u>	<u>14,516</u>

b) Zakat status

- Alujain Corporation (the parent company):

The Company finalized its Zakat status for the year ended December 31, 2002 and obtained the final Zakat certificate. The Company has filed the final Zakat returns for the years ended December 31, 2003 to 2010. During the subsequent period (February 2012), the DZIT issued its assessment for years ended December 31, 2003 to 2007 and claimed additional zakat difference of Saudi Riyals 5.4 million. The Company is in the process of objecting against this assessment and is confident of a favorable outcome. Accordingly, no provision was made against this assessment. The DZIT did not issue its assessment for the years 2008 to 2010 till date.

- National Petrochemical Industrial Company (the Subsidiary Company):

The Subsidiary filed its Zakat returns for the period/years ended December 31, 1999 to 2005 and obtained the restricted Zakat certificate. The DZIT issued the final Zakat assessment for the period/years ended December 31, 1999 to 2005 and claimed additional Zakat differences, withholding tax and penalties of Saudi Riyals 8.6 million. The Subsidiary objected against the said assessment to the preliminary objection committee who reduced the assessment to Saudi Riyals 7.4 million. The Subsidiary filed an appeal against the preliminary objection committee's decision with the Higher Appeal Committee, which is still under review. The Subsidiary filed its Zakat returns for the years ended December 31, 2006 to 2008 and obtained restricted Zakat certificate. The DZIT issued the Zakat assessment for the years from 2006 to 2008 and claimed additional Zakat differences, delay fines and withholding tax of Saudi Riyals 12 million. The Subsidiary objected against the said assessment and settled the withholding tax and delay fine of Saudi Riyals 9 million under protest, which is still under review by DZIT. The Subsidiary filed its Zakat return for the years ended December 31, 2009 and 2010 and obtained restricted Zakat certificate.

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2011**

(All amounts in Saudi Riyals thousands unless otherwise stated)

17 DERIVATIVE FINANCIAL INSTRUMENTS

In prior years, the Subsidiary entered into an interest rate swap (the "Swap Contract"), with local commercial banks to hedge future adverse fluctuation in interest rates on its long term borrowings. The Subsidiary designated the Swap Contracts, at its outset, as a cash flow hedge.

The notional amount of the Swap Contracts at December 31, 2011 is Saudi Riyals 943 million (2010: Saudi Riyals 1,063 million). The Swap Contract is intended to effectively convert the interest rate cash flow on the long term loans from a floating rate based on LIBOR to a fixed rate, during the entire tenor of the loan agreements.

At December 31, 2011, the Swap Contracts had a negative fair value of Saudi Riyals 107 million (2010: negative fair value of Saudi Riyals 132.8 million), based on the valuation determined by a model and confirmed by the Subsidiary's bankers. Such negative fair value is included in non-current liabilities in the balance sheet with a corresponding debit to the changes in fair value of derivatives in the shareholders' equity accounts. The Subsidiary charged an amount of Saudi Riyals 3.18 million as a gain (2010: loss of Saudi Riyals 0.8 million) to the income statement, being the ineffective portion of the interest rate swap.

18 EMPLOYEES' TERMINATION BENEFITS

	2011	2010
January 1	10,624	8,535
Addition	3,106	3,316
Payments	<u>(1,087)</u>	<u>(1,227)</u>
December 31	<u>12,643</u>	<u>10,624</u>

19 STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Group transfers 10% of the net income for the year to a statutory reserve until such reserve equals 50% of its share capital. No such transfer to the statutory reserve was made as the Group has accumulated losses during the year ended December 31, 2011. This reserve is not available for distribution to the shareholders of the Group.

20 (LOSS) EARNINGS PER SHARE

(Loss) earnings per share for the years ended December 31, 2011 and 2010 have been computed by dividing the operating income (loss), non-operating loss and net (loss) income for each year by the weighted average number of shares outstanding during such years.

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2011**

(All amounts in Saudi Riyals thousands unless otherwise stated)

21 SELLING, DISTRIBUTION AND GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
Salaries and wages	32,050	39,546
Public relation and publicity	6,317	3,340
Depreciation	4,352	3,995
Travel and accommodation	3,158	4,069
Legal and professional fees	3,074	7,814
Rents	2,379	3,504
Information technology	1,632	2,079
Directors' compensation	1,461	742
Subscriptions and supplies	1,203	1,908
Utilities and services	1,201	1,375
Meetings, seminars and conferences	819	891
Engineering and technical assistance	535	771
Repairs and maintenance	166	110
Other	5,946	3,425
	<u>64,293</u>	<u>73,569</u>

22 CAPITAL GAIN ON SALE OF SHARES

During the year ended December 31, 2010, the Company had subscribed for additional 10,367,787 shares in its Subsidiary at the par value of Saudi Riyals 10 per share, thus increasing its ownership in the Subsidiary from 57.4% to 58.9%. As the Company's intention is to keep its ownership in Natpet at 57.4%, so the excess shares of 1,614,370 shares were sold to an affiliate at Saudi Riyals 17 per share. Accordingly, the Company realized a capital gain on sale of shares amounting to Saudi Riyals 11.3 million, which was reflected in the consolidated income statement for the year.

23 SEGMENT INFORMATION

The Group conducts its business in Saudi Arabia and principally produces polypropylene for various industrial use. Accordingly, business or geographical segment information is not currently applicable.

24 OPERATING LEASES

The Group has various operating leases for its land on which the Subsidiary's plant has been built, offices and warehouses. Rental expenses for the year ended December 31, 2011 amounted to Saudi Riyals 3.7 million (2010 - Saudi Riyals 3.7 million). Future rental commitments at December 31, 2011 under these operating leases are as follows:

Years ending December 31:

	2011	2010
2011	-	3,672
2012	3,054	2,872
2013	1,361	1,226
2014	559	559
	<u>4,974</u>	<u>8,329</u>

25 CONTINGENCIES

At December 31, 2011 and 2010, the Company has an outstanding letter of credit on behalf of its Subsidiary amounting to Saudi Riyals 31.76 million of which Saudi Riyals 31.53 million (2010: Saudi Riyals 31.3 million) is secured by a bank deposit and is included under non-current assets as security deposit.

The Group had the following contingencies:

- i) The Subsidiary terminated its agreement with one of its Trading Partner as their performance was not satisfactory. The Trading Partner has demanded Saudi Riyals 68 million as compensation for damages. The Subsidiary's management and its legal counsel believe that it is premature to assess the outcome of the claim and, accordingly, no provision has been made in these financial statements.
- ii) The Subsidiary has a purchase contract to purchase material from a supplier. During 2011, the supplier sent a notice to the Company demanding Saudi Riyals 30 million for a purported shortfall in the purchases as per the contract. The Subsidiary's management and its legal counsel believe that there is no merit in such claim and accordingly no provision has been made in these financial statements.
- iii) As at December 31, 2011, the Group has contingent liabilities related to letters of credit amounting to Saudi Riyals Nil million (2010: Saudi Riyals 19.9 million) on which a margin deposit of Saudi Riyals Nil million was paid (2010: Saudi Riyals 27,2 million), and letters of guarantee amounting to Saudi Riyals 384.1 million (2010: Saudi Riyals 40.4 million) on which a margin deposit of Saudi Riyals 8.3 million was paid (2010: Saudi Riyals 8.8 million).
- iv) See note 16 for Zakat contingency.