

**METHANOL CHEMICALS COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**  
With  
**INDEPENDENT AUDITORS' REPORT**

**METHANOL CHEMICALS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS**

**For the year ended December 31, 2013**

**Expressed in Saudi Arabian Riyals**

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License No 46/11/323 issued 11/3/1992

## INDEPENDENT AUDITORS' REPORT

**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, 2013 and the related statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 24 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 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. 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 controls 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 controls. 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, 2013, 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, 16 February 2014G  
Corresponding to: 16 Rabi' Al-Thani 1435H

**METHANOL CHEMICALS COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

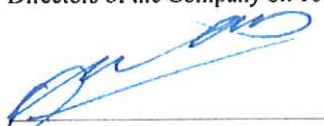
**BALANCE SHEET**

As at December 31, 2013

Expressed in Saudi Arabian Riyals

	Note	2013	2012
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	78,545,791	114,777,303
Margin deposits with bank		500,000	500,000
Trade receivables		245,767,102	251,468,777
Inventories	5	127,936,115	121,445,541
Prepayments and other current assets	6	26,237,488	45,673,579
<b>Total current assets</b>		<b>478,986,496</b>	<b>533,865,200</b>
<b>Non-current assets:</b>			
Intangible assets	7	12,993,750	13,781,250
Deferred charges	8	-	1,768,228
Long term prepaid expenses	9	25,531,233	30,992,729
Property, plant and equipment	10	2,265,174,790	2,343,802,441
<b>Total non-current assets</b>		<b>2,303,699,773</b>	<b>2,390,344,648</b>
<b>Total assets</b>		<b>2,782,686,269</b>	<b>2,924,209,848</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities:</b>			
Trade payables		45,681,459	56,498,531
Short term loans	11	60,000,000	-
Current portion of long-term bank debts	11	154,560,000	142,625,000
Current portion of long term obligations	7	1,337,500	3,087,500
Accrued expenses and other current liabilities	12	49,640,268	40,289,265
Zakat provision	13	5,000,000	4,901,401
<b>Total current liabilities</b>		<b>316,219,227</b>	<b>247,401,697</b>
<b>Non-current liabilities:</b>			
Long-term bank debts	11	851,805,000	1,075,925,000
Employees' end of service benefits		31,430,811	27,643,478
<b>Total non-current liabilities</b>		<b>883,235,811</b>	<b>1,103,568,478</b>
<b>Total liabilities</b>		<b>1,199,455,038</b>	<b>1,350,970,175</b>
<b><u>EQUITY</u></b>			
Share capital	14	1,206,000,000	1,206,000,000
Share premium		72,850,071	72,850,071
Statutory reserve		40,898,576	33,686,753
Retained earnings		263,482,584	260,702,849
<b>Total equity</b>		<b>1,583,231,231</b>	<b>1,573,239,673</b>
<b>Total liabilities and equity</b>		<b>2,782,686,269</b>	<b>2,924,209,848</b>

The Financial Statements appearing on pages 1 to 17 were approved by the management on behalf of Board of Directors of the Company on 16 February 2014, and have been signed on their behalf by:

  
Ovais A Mohamed  
Chief Financial Officer

  
Khalid Al Rabiah  
Chief Executive Officer

  
Sami Mohammed Jalal  
Board Member

The accompanying notes 1 through 24 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, 2013  
Expressed in Saudi Arabian Riyals

	Note	2013	2012
Sales		873,722,183	920,747,322
Cost of sales		(664,218,823)	(703,297,587)
<b>Gross profit</b>		<b>209,503,360</b>	<b>217,449,735</b>
Selling and distribution expenses	16	(66,558,521)	(68,991,497)
General and administrative expenses	17	(24,497,755)	(25,590,062)
Amortisation of deferred charges	8	(1,768,228)	(2,972,864)
<b>Operating income</b>		<b>116,678,856</b>	<b>119,895,312</b>
Other (expenses)/income, net	18	(2,027,121)	14,077,491
Financial charges		(36,871,730)	(37,643,403)
<b>Income before Zakat</b>		<b>77,780,005</b>	<b>96,329,400</b>
Zakat	13	(5,661,774)	(4,900,000)
<b>Net income</b>		<b>72,118,231</b>	<b>91,429,400</b>
Earnings per share	19	0.60	0.76

The accompanying notes 1 through 24 form an integral part of these financial statements.

**METHANOL CHEMICALS COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF CASH FLOWS**  
**For the year ended December 31, 2013**  
Expressed in Saudi Arabian Riyals

	<u>Note</u>	<u>2013</u>	<u>2012</u>
<b>Cash flow operating activities:</b>			
Net income for the year		72,118,231	91,429,400
<i>Adjustment to reconcile net income to net cash provided by operating activities:</i>			
Depreciation	10	153,742,792	150,587,184
Amortisation		8,017,224	9,313,219
Employees' end of service benefits charge		8,663,920	6,524,592
Zakat charge	13	5,661,774	4,900,000
Gain from disposal of property, plant and equipment		(1,528)	(406,523)
		<u>248,202,413</u>	<u>262,347,872</u>
<b>Changes in operating assets and liabilities:</b>			
Trade receivables and prepayments and other current assets		25,137,766	(32,765,106)
Inventories		(6,490,574)	(3,195,625)
Trade payables and accrued expenses and other current liabilities		(3,433,250)	15,550,812
Employees' end of service benefits paid		(4,876,587)	(2,987,392)
Zakat paid	13	(5,563,175)	(3,995,039)
<b>Net cash provided by operating activities</b>		<u>252,976,593</u>	<u>234,955,522</u>
<b>Cash flow from investing activities:</b>			
Additions to property, plant and equipment		(76,633,764)	(30,071,351)
Proceeds from disposal of property, plant and equipment		1,520,151	443,248
Repayment of long term obligations		(1,750,000)	(5,250,000)
<b>Net cash used in investing activities</b>		<u>(76,863,613)</u>	<u>(34,878,103)</u>
<b>Cash flow from financing activities:</b>			
Receipt/(payment) of short term loans		60,000,000	(40,000,000)
Repayment of long term loans		(212,185,000)	(167,415,000)
Dividend paid		(60,159,492)	-
<b>Net cash used in by financing activities</b>		<u>(212,344,492)</u>	<u>(207,415,000)</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(36,231,512)</u>	<u>(7,337,581)</u>
Cash and cash equivalents at the beginning of the year		114,777,303	122,114,884
<b>Cash and cash equivalent at the end of the year</b>	4	<u>78,545,791</u>	<u>114,777,303</u>

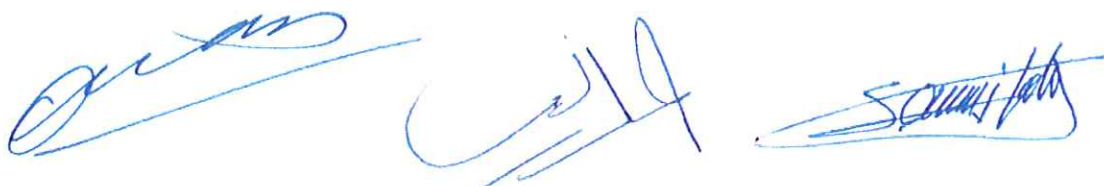


The accompanying notes 1 through 24 form an integral part of these financial statements.

**METHANOL CHEMICALS COMPANY**  
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**STATEMENT OF CHANGES IN EQUITY**  
For the year ended December 31, 2013  
Expressed in Saudi Arabian Riyals

	Share capital	Share premium	Statutory reserve	Retained earnings	Total
Balance at December 31, 2011	1,206,000,000	72,850,071	24,543,813	180,019,170	1,483,413,054
Net income for the year	-	-	-	91,429,400	91,429,400
Directors' remuneration	-	-	-	(1,602,781)	(1,602,781)
Transfer to statutory reserve	-	-	9,142,940	(9,142,940)	-
Balance at December 31, 2012	1,206,000,000	72,850,071	33,686,753	260,702,849	1,573,239,673
Net income for the year	-	-	-	72,118,231	72,118,231
Directors' remuneration	-	-	-	(1,826,673)	(1,826,673)
Transfer to statutory reserve	-	-	7,211,823	(7,211,823)	-
Dividend paid	-	-	-	(60,300,000)	(60,300,000)
Balance at December 31, 2013	1,206,000,000	72,850,071	40,898,576	263,482,584	1,583,231,231



The accompanying notes 1 through 24 form an integral part of these financial statements.



**METHANOL CHEMICALS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2013**  
**Expressed in Saudi Arabian Riyals**

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**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

Methanol Chemicals Company ("Chemanol" or "the Company") is a Saudi Joint Stock Company registered in Saudi Arabia under Commercial Registration number 2055001870 dated Dhu Al-Hijjah 28, 1409H corresponding to July 31, 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-mon-methylamine, di-methyl formamide, di-methyl carbon, penta aritheretol, sodium formate and acetaldehyde, as per ministerial resolution number (616/Saud) dated Safar 12, 1429H, corresponding to February 19, 2008.

The Company was converted from a limited liability company into a joint stock company in accordance with Ministerial Resolution No. 286 dated Dhul al-Qa'dah 4, 1428H, corresponding November 14, 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 February 16, 2013.

**(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.

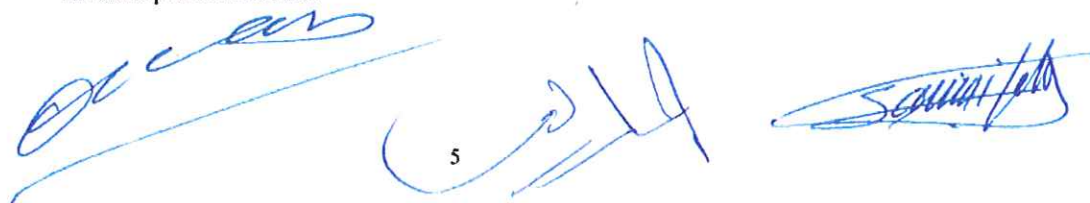
**(c) Functional and presentation currency**

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

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

The preparation of financial statements requires management to make judgments, 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.



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**METHANOL CHEMICALS COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2013**  
**Expressed in Saudi Arabian Riyals**

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**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

**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 realizable 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 Statement of Income when incurred.

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

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

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

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.

**METHANOL CHEMICALS COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2013**  
**Expressed in Saudi Arabian Riyals**

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**d. Intangible assets**

Estimated value of the right to use pipelines owned by other parties for transporting raw materials and finished goods are treated as intangible assets and are amortized 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 the 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.

**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 customer. Revenue is recorded net of returns, trade discounts and volume rebates.

Any other income is recognized when the realization of income is virtually certain.

**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.

**METHANOL CHEMICALS COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2013**  
**Expressed in Saudi Arabian Riyals**

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n. Expenses**

Selling and distribution 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, selling and marketing and 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 in hand and cash at banks which is 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.

**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.

**METHANOL CHEMICALS COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2013  
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**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at December 31, comprise of the following:

	<u>2013</u>	<u>2012</u>
Cash in hand	60,000	60,278
Cash at bank in current accounts	78,485,791	59,942,025
Short term bank deposits	-	54,775,000
	<u>78,545,791</u>	<u>114,777,303</u>

**5. INVENTORIES**

Inventories at December 31, comprise of the following:

	<u>2013</u>	<u>2012</u>
Raw materials	22,571,698	20,704,171
Finished goods	30,530,378	10,748,751
Spare parts	68,568,974	68,633,978
Consumables	13,315,114	19,033,958
Packing materials	3,879,656	4,545,649
Provision for slow moving inventories	(10,929,705)	(2,220,966)
	<u>127,936,115</u>	<u>121,445,541</u>

**6. PREPAYMENTS AND OTHER CURRENT ASSETS**

Prepayments and other current assets at December 31, comprise of the following:

	<u>2013</u>	<u>2012</u>
Advances to suppliers	14,435,444	18,815,565
Amount due from insurers	-	14,900,000
House rent allowance receivable from employees	5,869,023	5,723,324
Prepaid expenses	4,505,054	4,344,341
Other receivables	1,221,088	1,391,446
Amounts due from companies affiliated to shareholders	206,879	498,903
	<u>26,237,488</u>	<u>45,673,579</u>

**7. INTANGIBLE ASSETS**

On March 7, 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. During the year, the PSA was extended to 26 December 2013. Management is currently in the process of obtaining an extension to the PSA.

The Company has capitalized the estimated amount payable in respect of the Capital Investment Component, which amounts to SR 15.75 million. The intangible assets have been amortized over twenty years, on the basis that this is the estimated useful life of the asset. The Management believes that the ammonia supply will continue for the foreseeable future.



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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2013**  
Expressed in Saudi Arabian Riyals

**8. DEFERRED CHARGES**

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

	2013	2012
<u>Cost</u>		
At January 1	14,776,298	14,776,298
Additions during the year	-	-
At December 31	14,776,298	14,776,298
<u>Accumulated amortization</u>		
At January 1	13,008,070	10,035,206
Charge for the year	1,768,228	2,972,864
At December 31	14,776,298	13,008,070
Net book value at December 31	-	1,768,228

Deferred charges carried forward from FY 2012 represent software license and implementation costs and are amortized over the period of five years from the date of successful implementation. These charges are fully amortized during the year.

**9. LONG TERM PREPAID EXPENSES**

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

	2013	2012
<u>Cost</u>		
At January 1	55,543,635	55,543,635
Additions during the year	-	-
At December 31	55,543,635	55,543,635
<u>Accumulated amortization</u>		
At January 1	24,550,906	18,998,051
Charge for the year	5,461,496	5,552,855
At December 31	30,012,402	24,550,906
Net book value at December 31	25,531,233	30,992,729

Long term prepaid expenses represent SIDF funding appraisal costs, Murabaha facility appraisal and restructuring costs and are being amortized over a period of six to nine years.

**METHANOL CHEMICALS COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2013  
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**10. PROPERTY, PLANT AND EQUIPMENT**

The movement in property, plant and equipment during the year ended December 31, 2013 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 (CWIP)	Catalyst	Plant overhaul	Total 2013
<b>Cost</b>								
Balance at January 1	356,784,827	17,986,795	15,673,768	2,547,680,498	5,532,381	33,092,489	-	2,976,750,758
Additions	1,459,231	491,402	8,652,317	12,021,420	12,450,566	11,356,667	30,202,161	76,633,764
Transfers from CWIP	436,000	-	85,244	8,358,760	(8,880,004)	-	-	-
Disposals	-	(11,202)	(4,790,629)	(2,787,300)	-	-	-	(7,589,131)
Balance at December 31	358,680,058	18,466,995	19,620,700	2,565,273,378	9,102,943	44,449,156	30,202,161	3,045,795,391
<b>Accumulated depreciation</b>								
Balance at January 1	43,294,044	10,890,177	11,324,876	535,960,226	-	31,478,994	-	632,948,317
Charge for the year	10,703,114	1,943,171	2,623,152	128,439,728	-	4,223,835	5,809,792	153,742,792
Eliminated on disposals	-	(11,202)	(4,778,113)	(1,281,193)	-	-	-	(6,070,508)
Balance at December 31	53,997,158	12,822,146	9,169,915	663,118,761	-	35,702,829	5,809,792	780,620,601
<b>Net book value</b>								
At December 31, 2013	304,682,900	5,644,849	10,450,785	1,902,154,617	9,102,943	8,746,327	24,392,369	2,265,174,790
At December 31, 2012	313,490,783	7,096,618	4,348,892	2,011,720,272	5,532,381	1,613,495	-	2,343,802,441

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**10. 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 April 16, 1990 corresponding to Ramadan 21, 1410H at an annual rent of SR 110,430. The Company has entered into land lease arrangement with Sea Ports Authority of King Fahad Industrial Port, Al – Jubail for a period of 20 years from April 11, 2006 corresponding to Shawwal 13, 1427H at an annual lease rent of SR 310,044. The Company has entered into another land lease arrangement with the Commission for a period of 30 years from July 20, 2007 corresponding to Rabi II 3, 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.

**11. BANK DEBTS**

**a. Short-term bank debts**

The Company has obtained 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>2013</u>	<u>2012</u>
Saudi Industrial Development Fund (note i)	470,000,000	540,000,000
Murabaha facility from a syndicate of banks (note ii)	431,365,000	528,550,000
Project cost overrun Murabaha Facility from a syndicate of banks (note ii)	<u>105,000,000</u>	<u>150,000,000</u>
	<u>1,006,365,000</u>	<u>1,218,550,000</u>

Presented in the balance sheet as follows:

	<u>2013</u>	<u>2012</u>
Current portion shown under current liabilities	154,560,000	142,625,000
Non-current portion shown under non-current liabilities	<u>851,805,000</u>	<u>1,075,925,000</u>
	<u>1,006,365,000</u>	<u>1,218,550,000</u>

- i) On May 15, 2011, the Company reached an agreement with the SIDF to restructure the existing outstanding debt balance. The restructured debt amounting to SR 600,000,000 will be payable in 15 instalments, with the first and last instalment due on January 9, 2012 and October 25, 2018, respectively.

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

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**11. BANK DEBTS (Continued)**

- ii) In December 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. The Project Murabaha Facility loan amounting to SR 525 million has been repaid on availment of the SIDF loan.

In October 2009, the Company entered into a Project Cost Overrun 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 "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 were originally repayable in two years from drawdown note i.e. November 18, 2011.

On June 5, 2011, the Company entered into a refinancing agreement with a syndicate of banks, namely; SABB, Riyadh Bank and Samba Financial Group (collectively called as "The Murabaha Facility Participants") to refinance both i) the outstanding balance under the Project Murabaha Facility & the Working Capital Facility Agreement of SAR 506 million dated December 26, 2007, ii) the Cost Overrun Facility Agreement of SAR 326 million dated October 27, 2009.

As per the new Murabah Facility Agreement dated June 5, 2011, the Project Murabaha Facility amounting to SR 682 million will be payable in 14 semi-annual installments starting from July 2011 to December 2017. The Working Capital Murabaha Facility amounting to SR 150 million will be payable in 10 semi-annual installments starting from January 2013 to December 2017.

The facilities are 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 the balance sheet date are shown as current liabilities.

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**12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities as at December 31, comprise of the following:

	2013	2012
Accrued expenses	47,356,544	38,592,661
Advance from customers	2,031,927	1,206,899
Amounts due to companies affiliated to shareholders	111,289	489,705
Dividend payable	140,508	-
	<u>49,640,268</u>	<u>40,289,265</u>

**13. 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 2012 and paid Zakat accordingly and the assessment is awaited.

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

	2013	2012
For current year	5,000,000	4,901,401
Under/(over) provision for prior year	661,774	(1,401)
	<u>5,661,774</u>	<u>4,900,000</u>

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

	2013	2012
Capital	1,206,000,000	1,206,000,000
Adjusted equity and provision at the beginning of the year	1,319,851,138	1,377,870,183
Net adjusted income	77,180,837	(162,459,997)
Deductions for the year	(2,403,468,114)	(2,247,651,730)

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

	2013	2012
Balance at beginning of the year	4,901,401	3,996,440
Charged during the year	5,661,774	4,900,000
Payment during the year	(5,563,175)	(3,995,039)
Balance at end of the year	<u>5,000,000</u>	<u>4,901,401</u>

**14. SHARE CAPITAL**

Share capital is divided into 120,600,000 shares (2012: 120,600,000 shares) of SR 10 each.



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**15. DIRECTORS' REMUNERATION**

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

**16. SELLING AND DISTRIBUTION EXPENSES**

Selling and distribution expenses during the year ended December 31, are summarized as follows:

	2013	2012
Freight	41,847,127	44,927,268
Sales commission	10,703,839	11,970,218
Employee costs	5,989,242	4,976,458
Custom charges	3,819,659	3,524,869
External manpower services	1,054,306	883,990
Advertisement and promotion	70,850	123,522
Others	3,073,498	2,585,172
	<u>66,558,521</u>	<u>68,991,497</u>

**17. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses during the year ended December 31, are summarized as follows:

	2013	2012
Employee costs	13,981,088	15,996,910
Depreciation	3,201,967	2,351,003
External manpower services	1,189,258	822,299
Professional fees	1,078,659	1,015,697
Travel and air fares	669,388	480,720
Utilities and common expenses	669,324	475,652
Tadawul fees	460,000	475,000
Advertising	363,881	579,670
Rents	271,374	275,462
Withholding tax	173,722	1,194,264
Consumables	42,362	71,568
Others	2,396,732	1,851,817
	<u>24,497,755</u>	<u>25,590,062</u>

**18. OTHER (EXPENSES)/INCOME NET**

Other (expenses)/income, net during the year ended December 31, are summarized as follows:

	2013	2012
Insurance proceeds	-	14,900,000
Foreign exchange (loss)/gain	(1,643,555)	(1,889,100)
Gain on disposal of assets	1,528	406,523
Others	(385,094)	660,068
	<u>(2,027,121)</u>	<u>14,077,491</u>

Insurance proceeds relate to a claim in respect of property damage and business interruption as a result of significant component failure at the plant in 2011. The insurance proceeds has been fully received by the Company during the year.

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**19. EARNINGS PER SHARE**

Earnings per share (Basic) for the year ended December 31, 2013 have been computed by dividing the net income for such period by the weighted-average number of ordinary shares outstanding during the year. Diluted earnings per share is same as Basic earnings per share.

**20. CAPITAL COMMITMENTS**

As at December 31, 2013, the Company had capital expenditure commitments of SR 22.69 million (2012: SR 4.84 million).

The future aggregate minimum lease commitments under non-cancellable operating leases are as follows:

	2013	2012
Not later than 1 year	662,234	711,202
Later than 1 year but not later than 5 years	2,403,088	2,464,550
Later than 5 year till lease period	7,314,345	7,915,117
	<u>10,379,667</u>	<u>11,090,869</u>

**21. 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.

There were no sales of finished goods during the current year to affiliated companies (2012: SR Nil).

The cost of sales and expenses include amounts of SR 3,861,196 (2012: SR 3,826,814) in respect of purchase of inventories and services provided by companies affiliated to shareholders.

Amounts receivable from companies affiliated to shareholders in respect of advances paid are included Prepayments and other current assets under note 6.

Amounts payable to companies affiliated to shareholders are included in Accrued expenses and other current liabilities under note 12.

**22. CONTINGENT LIABILITY**

At December 31, 2013, the Company has a contingent liability of SR 49,411,075 (2012: SR 65,725,256) in respect of bank guarantees and letter of credits issued by the Company's banks in respect of bid bonds, contracts advance payments and performance bonds.

**23. 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. Accordingly, reporting is provided by geographical segment only. SR 548 million (63%) of the sales are through export (2012: SR 619 million (67%)).

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**24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments carried on the balance sheet include cash and cash equivalents, margin deposits with the bank, trade receivables and prepayments, inventories, trade payables and accruals, short term loans, current portion of term loans and long term obligations and zakat provision.

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, United States dollar and Euro are not considered to represent a 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.