

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
31 March 2011



KPMG Al Fozan & Al Sadhan

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**LIMITED REVIEW REPORT ON THE INTERIM
CONDENSED FINANCIAL STATEMENTS**

**The Shareholders
Methanol Chemicals Company
(A Saudi Joint Stock Company)
Al-Jubail, Kingdom of Saudi Arabia**

Scope of review:

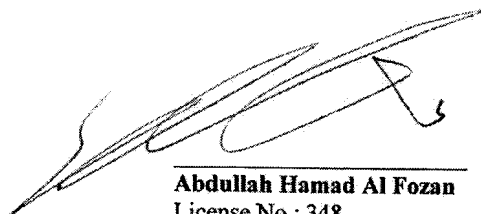
We have reviewed the accompanying interim balance sheet of Methanol Chemicals Company ("the Company") as at 31 March 2011, the related interim statement of income, the interim statements of cash flows for the three months period ended on 31 March 2011 and the attached condensed notes (1) to (5) which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

We conducted our limited review in accordance with the auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards the objective of which is the expression of an opinion regarding the financial statements taken as whole. Accordingly, we do not express such an opinion.

Conclusion:

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim condensed financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Al Sadhan



Abdullah Hamad Al Fozan
License No : 348



Al Khobar 05 April, 2011G
Corresponding to: 01 Jumada I, 1432H

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
INTERIM BALANCE SHEET (UNAUDITED)
As at 31 march 2011
Expressed in Saudi Arabian Riyals

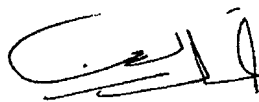
	Note	At 31 March 2011	At 31 March 2010
ASSETS			
Current Assets:			
Cash and cash equivalents	3	81,772,971	236,015,174
Accounts receivable and prepayments		231,037,223	178,589,499
Inventories		93,908,765	56,654,514
Total current assets		406,718,959	471,259,187
Non-current assets:			
Intangible assets		15,159,375	--
Deferred charges		6,957,540	1,817,046
Long term prepaid expenses		30,624,991	35,625,000
Property, plant and equipment		2,563,824,677	2,564,170,517
Total non-current assets		2,616,566,583	2,601,612,563
Total assets		3,023,285,542	3,072,871,750
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable and accruals		102,560,217	183,585,922
Short term loans		49,000,000	58,000,000
Current portion of term loans	4	493,704,112	97,875,758
Current portion of long term obligations		5,250,000	--
Zakat provision		5,579,858	3,916,385
Total current liabilities		656,094,187	343,378,065
Non-current liabilities			
Term loans		915,048,480	1,291,728,455
Long term obligations		7,025,000	--
Employees' terminal benefits		21,139,335	18,665,833
Total non-current liabilities		943,212,815	1,310,394,288
Total liabilities		1,599,307,002	1,653,772,353
SHAREHOLDERS' EQUITY			
Share capital		1,206,000,000	1,206,000,000
Share premium		72,850,071	72,850,071
Statutory reserve		17,522,617	17,824,669
Retained earnings		127,605,852	122,424,657
Total shareholders' equity		1,423,978,540	1,419,099,397
Total liabilities and shareholders' equity		3,023,285,542	3,072,871,750

The accompanying notes 1 through 5 form an integral part of these interim condensed financial statements.

The interim condensed Financial Statements appearing on pages (01) to (9) were approved by the Board of Directors on April 5, 2011 and have been signed on its behalf.



Name: **Khalil Afghani**
Position: Chief Finance Officer
City: Al Dammam



Name: **Khalid Al Rabiah**
Position: Chief Executive Officer
Date: April 5, 2011

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
INTERIM STATEMENT OF INCOME (UNAUDITED)
For three months period ended 31 march 2011
Expressed in Saudi Arabian Riyals

	Period from 1 January to 31 March	
	<u>2011</u>	<u>2010</u>
Sales	192,427,180	111,836,699
Cost of sales	(151,108,291)	(81,458,303)
Gross profit	<u>41,318,889</u>	<u>30,378,396</u>
Expenses:		
Selling and distribution expenses	(15,617,894)	(12,141,635)
General and administrative expenses	(4,477,551)	(5,290,780)
Amortisation of deferred charges	(738,816)	(353,304)
	<u>(20,834,261)</u>	<u>(17,785,719)</u>
Income from operations:	20,484,628	12,592,677
Other income, net	691,230	24,877
Financial charges	(10,523,199)	(2,556,056)
Income before Zakat for the period	<u>10,652,659</u>	<u>10,061,498</u>
Zakat	(1,000,000)	(1,000,000)
Net income for the period	<u>9,652,659</u>	<u>9,061,498</u>
Earnings per share (from net income)	<u>0.08</u>	<u>0.08</u>
Earnings per share (from main operations)	<u>0.17</u>	<u>0.10</u>

The accompanying notes 1 through 5 form an integral part of these interim condensed financial statements.

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the three months period ended 31 March 2011

Expressed in Saudi Arabian Riyals

	Note	Period from 1 January 2011 to 31 March 2011	Period from 1 January 2010 to 31 March 2010
Cash flow from operating Activities:			
Net income before Zakat		10,652,659	10,061,498
<i>Adjustment to reconcile net income to net cash provided by operating activities:</i>			
Depreciation		37,848,996	8,557,962
Amortisation of deferred charges		738,816	353,304
Amortisation of intangible assets		590,625	--
Employees' terminal benefits, net		(134,870)	407,932
Financial charges		10,523,199	2,556,056
Loss on disposal of plant and equipment		--	16,731
		<u>60,219,425</u>	<u>21,953,483</u>
Changes in operating assets and liabilities:			
Accounts receivable and prepayments		(11,880,068)	(21,956,351)
Inventories		(10,666,283)	368,611
Accounts payable and accruals		(14,392,750)	47,312,020
Financial charges paid		(10,523,199)	(2,556,056)
Zakat paid		--	-
Net cash provided by operating activities		<u>12,757,125</u>	<u>45,121,707</u>
Cash flow from investing Activities:			
Purchase of property, plant and equipment		(2,791,290)	(63,176,023)
Part payment of long term obligation		(875,000)	--
Proceeds from disposal of property, plant and equipment		--	16,000
Net movement in amount due to project contractors		(42,665,546)	(17,637,166)
Net movement in long term prepaid expenses		1,250,001	1,250,000
Net cash used in investing activities		<u>(45,081,835)</u>	<u>(79,547,189)</u>
Cash flow from financing Activities:			
Net movement in short term loans		7,393,413	--
Net movement in term loans		(29,465,242)	--
Net cash used in financing activities		<u>(22,071,829)</u>	<u>--</u>
Net decrease in cash and cash equivalents		(54,396,539)	(34,425,482)
Cash and cash equivalents at the beginning of the period		<u>136,169,510</u>	<u>270,440,656</u>
Cash and cash equivalents at the end of the period	3	<u>81,772,971</u>	<u>236,015,174</u>

The accompanying notes 1 through 5 form an integral part of these interim condensed financial statements.

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
31 March 2011

1. Activities

The company is a Saudi Joint Stock Company registered in Saudi Arabia under Commercial Registration number 2055001870 dated 28 Dhu al-Hijjah 1409H corresponding to 31 July 1989. It is licensed to engage in the production of formaldehyde liquid and urea formaldehyde liquid or their mixture with different concentrations, paraformaldehyde, liquid and powder 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 12 Safar 1429H, corresponding to 19 February 2008.

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

On 13 Rajab 1429H, corresponding to 16 July 2008, the shareholders resolved to increase the capital to 120,600,000 shares of SR 10 each, from 60,300,000 shares of SR 10 each. The legal formalities relating to increase in capital have been completed.

During the period from 10 Sha'ban 1429H to 19 Sha'ban 1429H, corresponding to 11 August 2008 to 20 August 2008, 60,300,000 shares of SR 10 each were offered to public at a premium of SR 2 per share, which were fully subscribed and are now publicly traded on the Saudi Stock Exchange (Tadawul).

On 28 June 2010, the testing phase of the new expansion projects (Methanol, Di-methylamine, and Penta plants) were completed and the commercial operations declared on the same date.

2. Significant Accounting Policies:

The interim financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention:

The interim financial statements are prepared under the historical cost convention, except for measurement for fair value of derivatives.

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
31 March 2011

2. Significant Accounting Policies (continued):

Use of estimates:

The preparation of financial statements in conformity with generally accepted principles requires the use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of the revenues and expenses during the reported period.

Cash and cash equivalents:

For the purpose of the statement of cash flows, cash and cash equivalents consists of cash in hand, bank balances and short-term deposits with an original maturity of three months or less.

Inventories:

Inventories are stated at the lower of cost and market value. Cost is determined as follows:

Raw materials, spare parts and supplies	-Purchase cost on a weighted average basis.
Finished goods	-Cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Deferred charges, long term prepaid expenses/amortisation:

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

Saudi Industrial Development Fund (SIDF) loan appraisal fees 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 ready for its intended use.

Property, plant and equipment/depreciation:

All property, plant and equipment are initially recorded at cost. Cost is depreciated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the assets or the term of the lease.

Capital work in progress is recognised at the cost of materials and services needed to fabricate the plant and equipment, plus salaries and other costs that can be specifically identified as necessary costs

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
31 March 2011

2. Significant Accounting Policies (continued):

to have the plant and equipment ready for its intended use and other overheads allocated on a systematic basis. Upon completion of the capital work in progress, the commercial operation is declared and the asset is then transferred to the respective class of property, plant and equipment.

Expenditure for repair and maintenance are charged to the statement of income. Improvements that increase the value or materially extend the life of the related assets are capitalized.

Employees' terminal benefits:

Provision is made for amounts payable in accordance with the employees' contract of employment applicable to their accumulated periods of services at the balance sheet date.

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 issue of shares.

Sales:

Sales represents the invoiced and accrued value of goods supplied by the Company during the period, net of trade and quantity discounts and are recognised when the significant risk and rewards of ownership of goods have passed to the buyer and the amount of sales can be measured reliably, which is normally on delivery to the customer.

Foreign Currencies:

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the interim statement of income.

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
31 March 2011

2. Significant Accounting Policies (continued):

Expenses:

Selling and distribution expenses are those that specifically relate to salesmen, warehousing and delivery vehicles as well as provision for doubtful debts. Except for financial charges and amortisation of deferred charges, all other expenses are classified as general and administration expenses.

Zakat:

Zakat is provided for in accordance with Saudi Arabia fiscal regulations. The provision is charged to the interim income statement.

The provision for the interim period is calculated based on the estimated zakat provision for the whole year. The difference between the provision made during the interim period and the actual provision for the period based on detailed zakat calculations for the year is accounted for at year end.

Earning per share:

Earnings per share from net income is calculated by dividing the net income for the period by the weighted average number of shares outstanding during the period.

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.

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.

Derivative financial instruments:

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

METHANOL CHEMICALS COMPANY
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
31 March 2011

2. Significant Accounting Policies (continued):

Adjustments related to the period:

The company has made all necessary adjustments which are important in order to present fairly in all material respects the interim financial position and results of operations.

3. Cash and cash equivalents:

	<u>At 31 March 2011</u>	<u>At 31 March 2010</u>
	<u>SR</u>	<u>SR</u>
Bank balances and cash	68,772,971	236,015,174
Short term bank deposits	13,000,000	--
	<u>81,772,971</u>	<u>236,015,174</u>

4. Current portion of term loans:

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

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

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
31 March 2011

4. Current portion of term loans (continued):

Current portion of term loans as of 31 March 2010, includes SR 326 million attributable to "Project Cost Overrun Murabaha Facility Agreement". As per the terms of the agreement, the facility is due for repayment on 18 November 2011. The nature of the loan agreement is that the principal was intended to be repaid through a Rights Issue and not through operational cash flows and the agreement details the process required for such a Rights Issue.

As of 05 April 2011, the management is confident that it can meet its obligation under the agreement and begin the process necessary to achieve a successful Rights Issue. In the event that the Rights Issue does not proceed, management has a number of options, including either extending the maturity date of the loan and/or raising additional capital, to meet its obligation.

Therefore management believe that the requirement to repay the debt in the next 12 months to be remote and therefore it is appropriate to prepare these financial statements on a going concern basis.

5. Segmental reporting:

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

Because the management views the whole activities of the company as one segment, reporting is provided by geographical segment only. Approximately 67% or SR 129 million of the sales of the company for the period from 1 January 2011 to 31 March 2011 are through export (2010: 63% or SR 64.6 million).