

**Methanol Chemicals Company
(A Saudi Joint Stock Company)**

FINANCIAL STATEMENTS

31 DECEMBER 2009

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
METHANOL CHEMICALS COMPANY (A SAUDI JOINT STOCK COMPANY)**

Scope of audit:

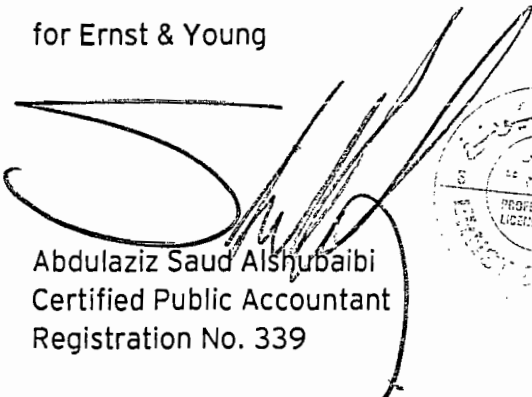
We have audited the accompanying balance sheet of Methanol Chemicals Company (A Saudi Joint Stock Company) as at 31 December 2009 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion:

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

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2009 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's articles of association in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young



Abdulaziz Saud Alshubaibi
Certified Public Accountant
Registration No. 339



28 Muharram 1431H
14 January 2010

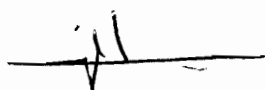
Alkhobar

Methanol Chemicals Company (A Saudi Joint Stock Company)

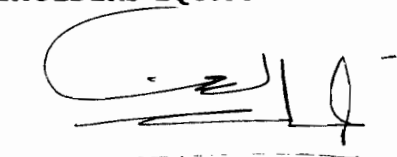
BALANCE SHEET

As At 31 December 2009

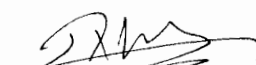
	Note	2009 SR	2008 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	270,440,656	374,696,175
Margin deposits with banks		500,000	4,719,402
Accounts receivable and prepayments	5	158,497,793	177,054,688
Inventories	6	57,023,125	55,756,128
TOTAL CURRENT ASSETS		486,461,574	612,226,393
NON-CURRENT ASSETS			
Property, Plant and Equipment	7	2,507,220,542	1,982,235,130
Deferred charges	9	2,170,350	3,583,566
Long term prepaid expenses	10	36,875,000	41,875,000
TOTAL NON-CURRENT ASSETS		2,546,265,892	2,027,693,696
TOTAL ASSETS		3,032,727,466	2,639,920,089
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accruals	11	153,369,024	84,231,405
Short term loans	12	58,000,000	75,000,000
Current portion of term loans	13	38,443,219	51,553,274
Zakat provision	20	2,916,385	900,000
TOTAL CURRENT LIABILITIES		252,728,628	211,684,679
NON CURRENT LIABILITIES			
Term loans	13	1,351,160,994	1,021,913,873
Employees' terminal benefits		18,257,901	15,978,583
TOTAL NON-CURRENT LIABILITIES		1,369,418,895	1,037,892,456
TOTAL LIABILITIES		1,622,147,523	1,249,577,135
SHAREHOLDERS' EQUITY			
Share capital	14	1,206,000,000	1,206,000,000
Share premium	15	72,850,071	72,850,071
Statutory reserve		16,918,519	14,713,020
Retained earnings		114,811,353	96,779,863
TOTAL SHAREHOLDERS' EQUITY		1,410,579,943	1,390,342,954
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,032,727,466	2,639,920,089



Adib Al-Zamil



Khalid Al-Rubiah



Khalid Al-Agha

The attached notes 1 to 28 form part of these financial statements.

Methanol Chemicals Company (A Saudi Joint Stock Company)

STATEMENT OF INCOME

Year ended 31 December 2009

	Note	2009 SR	2008 SR
Sales		402,302,427	570,668,877
Cost of sales		(304,954,337)	(448,683,999)
GROSS PROFIT		97,348,090	121,984,878
EXPENSES			
Selling and distribution	17	(45,338,746)	(52,800,240)
General and administration	18	(19,894,521)	(21,831,501)
Amortisation of deferred charges	9	(1,413,216)	(1,413,216)
		(66,646,483)	(76,044,957)
INCOME FROM MAIN OPERATIONS		30,701,607	45,939,921
Other income, net		1,129,782	437,731
Income from short term bank deposits		569,849	5,352,280
Financial charges		(8,047,592)	(12,362,399)
INCOME BEFORE ZAKAT		24,353,646	39,367,533
Zakat	20	(2,298,657)	(1,131,432)
NET INCOME FOR THE YEAR		22,054,989	38,236,101
Earnings per share (from net income)	21	0.18	0.48
Earnings per share (from main operation)	21	0.25	0.57

The attached notes 1 to 28 form part of these financial statements.

Methanol Chemicals Company (A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

Year ended 31 December 2009

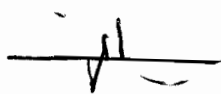
Note	2009 SR	2008 SR
OPERATING ACTIVITIES		
Income before zakat	24,353,646	39,367,533
Adjustments for:		
Depreciation	26,606,388	25,511,717
Amortisation	1,413,216	1,413,216
Employees' terminal benefits, net	2,279,318	6,051,023
Financial charges	8,047,592	12,362,399
Gain on disposal of plant and equipment	(365,671)	(264,187)
	<u>62,334,489</u>	<u>84,441,701</u>
Changes in operating assets and liabilities		
Receivables	18,556,895	(20,161,299)
Inventories	(1,266,997)	(17,829,416)
Payables	(672,195)	640,742
	<u>78,952,192</u>	<u>47,091,728</u>
Cash from operations	78,952,192	47,091,728
Financial charges paid	(8,047,592)	(12,362,399)
Zakat paid	(282,272)	(1,294,405)
	<u>70,622,328</u>	<u>33,434,924</u>
Net cash from operating activities	70,622,328	33,434,924
INVESTING ACTIVITIES		
Purchase of plant and equipment	(551,904,334)	(980,236,719)
Proceeds from disposal of plant and equipment	678,205	431,822
Net movement in margin deposits with banks	4,219,402	55,859,380
Net movement in amount due to project contractor	67,991,814	16,056,030
Net movement in long term prepaid expenses	5,000,000	(41,875,000)
	<u>(474,014,913)</u>	<u>(949,764,487)</u>
Net cash used in investing activities	(474,014,913)	(949,764,487)
FINANCING ACTIVITIES		
Proceeds from issue of shares	-	603,000,000
Share premium, net	-	72,850,071
Net movement in short term loans	(17,000,000)	(178,418,333)
Net movement in term loans	316,137,066	780,792,726
	<u>299,137,066</u>	<u>1,278,224,464</u>
Net cash from financing activities	299,137,066	1,278,224,464
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(104,255,519)	361,894,901
Cash and cash equivalents at the beginning of the year	374,696,175	12,801,274
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	270,440,656	374,696,175

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2009

	<i>Share capital SR</i>	<i>Share premium SR</i>	<i>Statutory reserve SR</i>	<i>Retained earnings SR</i>	<i>Total SR</i>
Balance at 31 December 2007	603,000,000	-	10,889,410	64,220,372	678,109,782
Net income for the year	-	-	-	38,236,101	38,236,101
Issue of share capital	603,000,000	72,850,071	-	-	675,850,071
Directors' remuneration	-	-	-	(1,853,000)	(1,853,000)
Transfer to statutory reserve	-	-	3,823,610	(3,823,610)	-
Balance at 31 December 2008	1,206,000,000	72,850,071	14,713,020	96,779,863	1,390,342,954
Net income for the year	-	-	-	22,054,989	22,054,989
Directors' remuneration	-	-	-	(1,818,000)	(1,818,000)
Transfer to statutory reserve	-	-	2,205,499	(2,205,499)	-
Balance at 31 December 2009	1,206,000,000	72,850,071	16,918,519	114,811,353	1,410,579,943





The attached notes 1 to 28 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

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 licenced 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-mono-methylamine, di-methyl formamide, di-methyl carbon, penta aritheretol, sodium formate and acetaldehyde, as per ministerial resolution number (616/suad) dated 12 Safar 1429 H, corresponding to 19 February 2008.

On 13 Rajab 1429H, corresponding to 16 July 2008, the shareholders resolved to increase the share 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 share capital have been completed.

During the period from 10 Shaban 1429H to 19 Shaban 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 now publicly traded in the Saudi Stock Exchange (Tadawul).

2 BASIS OF PREPARATION

The company was converted into a joint stock company in accordance with Ministerial Resolution No. 286 dated 4 Dhu al-Qa'dah 1428H, corresponding to 14 November 2007. Accordingly, statutory financial statements were prepared for the first fiscal year commencing from the Ministerial Resolution's date announcing the conversion of the company upto 31 December 2008. A separate set of financial statements for the period from 1 January 2008 to 31 December 2008 has also been prepared. The comparative amounts in these financial statements cover the period from 1 January 2008 to 31 December 2008.

3 SIGNIFICANT ACCOUNTING POLICIES

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

Use of estimate

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 consist of cash in hand, bank balances and short-term deposits with an original maturity of three months or less.

Accounts receivable

Accounts receivable are stated at original invoice amount less a allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred charges, long term prepaid expenses/ amortisation

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

SIDF loan appraisal fees are treated as long term prepaid expenses and amortised over the period of the loan. Amortisation of the balance upto the date the plant is ready for its intended use is capitalised.

Property, plant and equipment/depreciation

All property, plant and equipment are initially recorded at cost. The 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 asset or the term of the lease.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Capital work in progress are recognised at 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 to have the plant and equipment ready for its intended use, test run costs and other overheads allocated on a systematic basis.

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.

Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use are in progress and the expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount (being the excess of carrying amount over the recoverable amount). Impairment losses are recognised in the statement of income.

Statutory reserve

As required by Saudi Arabian Regulations for Companies, 10% of the net income for the year has been transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the capital. The reserve is not available for distribution.

Accounts payable and accruals

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

Employees' terminal benefits

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

Share premium

Share premium represents the excess amount collected over the face value of shares issued and is shown at net of expenses incurred in relation to issue of shares.

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Sales

Sales represent the invoiced and accrued value of goods supplied by the Company during the year, net of trade and quantity discounts and are recognised when the significant risks and rewards of ownership of goods have passed to the buyer and the amount of sales can be measured reliably 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 the 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 statement of income.

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.

Directors' remuneration

Board of Directors' remuneration has been debited to retained earnings as appropriation in accordance with the company's by-laws.

Zakat

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

Earning per share

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

Earnings per share from main operations is calculated by dividing income from main operations for the year by the weighted average number of shares outstanding during the year.

Segmental reporting

A segment is a distinguishable component of the company that is engaged in providing products or 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 interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

Derivative financial instruments

The Company uses derivatives 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 (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2009

4 CASH AND CASH EQUIVALENTS

	2009 SR	2008 SR
Bank balances and cash	90,440,656	83,150,575
Short term bank deposits	180,000,000	291,545,600
	<u>270,440,656</u>	<u>374,696,175</u>

Short term bank deposits have been confirmed as Islamic transactions by the bank. These deposits have original maturity of three months or less.

5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2009 SR	2008 SR
Trade accounts receivable	123,795,876	152,872,966
Advances to suppliers	23,182,756	12,067,205
Other receivables	8,657,532	8,644,226
Prepaid expenses	2,861,629	3,470,291
	<u>158,497,793</u>	<u>177,054,688</u>

6 INVENTORIES

	2009 SR	2008 SR
Raw materials	14,639,811	23,530,927
Finished goods	12,216,609	6,906,791
Spare parts and supplies	30,166,705	25,318,410
	<u>57,023,125</u>	<u>55,756,128</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2009

7 PROPERTY, PLANT AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Freehold building	33.33 years
Improvements on leasehold land	5 years
Furniture, fixtures and office equipment	7 to 10 years
Computers and software	4 to 8 years
Plant, equipment and capital spares	10 to 20 years
Motor vehicles	4 years

	<i>Building & improvement on leasehold land</i> SR	<i>Furniture, fixtures and office equipment</i> SR	<i>Computers and software</i> SR	<i>Plant, equipment, capital spares and motor vehicles</i> SR	<i>Capital work in progress</i> SR	<i>Total 2009</i> SR	<i>Total 2008</i> SR
Cost:							
At the beginning of the year	53,869,295	10,510,150	8,426,386	457,089,682	1,666,202,480	2,196,097,993	1,217,416,467
Additions	487,203	505,340	336,213	6,850,664	543,724,914	551,904,334	980,236,719
Transfers	550,000	-	91,145	3,345,080	(3,986,225)	-	-
Disposals	-	-	(15,590)	(2,376,879)	-	(2,392,469)	(1,555,193)
At the end of the year	54,906,498	11,015,490	8,838,154	464,908,547	2,205,941,169	2,745,609,858	2,196,097,993
Depreciation:							
At the beginning of the year	13,319,478	5,137,382	7,170,154	188,235,849	-	213,862,863	189,738,704
Charge for the year	2,013,152	843,201	723,402	23,026,633	-	26,606,388	25,511,717
Disposals	-	-	(2,493)	(2,077,442)	-	(2,079,935)	(1,387,558)
At the end of the year	15,332,630	5,980,583	7,891,063	209,185,040	-	238,389,316	213,862,863
Net book amounts:							
At 31 December 2009	39,573,868	5,034,907	947,091	255,723,507	2,205,941,169	2,507,220,542	1,982,235,130
At 31 December 2008	40,549,817	5,372,768	1,256,232	268,853,833	1,666,202,480		

Methanol Chemicals Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2009

7 PROPERTY PLANT AND EQUIPMENT (continued)

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

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

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

The current year additions to capital work in progress include SR 37,765,487 (2008: SR 64,432,909) of capitalized borrowing cost.

The current year additions to capital work in progress include SR 5,000,000 (2008: SR 3,125,000) of amortised SIDF loan appraisal fees (note 10).

Capital work in progress as of 31 December 2009 also include SR 15,044,793 (2008: SR 167,696,294) of advances to project contractors.

Capital work in progress as of 31 December 2009 also include SR 1,199,998 (2008: nil) being net trial run production cost (note 8).

8 TRIAL RUN PRODUCTION

	2009 SR	2008 SR
Sale of trial run production	17,105,133	-
Cost of trial run production	(18,305,131)	-
	<u>(1,199,998)</u>	<u>-</u>

During the year, methanol and penta projects have commenced trial run production. Cost of trial run production, net of sale of trial run production has been added to capital work in progress (note 7).

9 DEFERRED CHARGES

	2009 SR	2008 SR
Cost:		
At the beginning and at the end of the year	7,066,052	7,066,052
Amortisation:		
At the beginning of the year	3,482,486	2,069,270
Provided during the year	1,413,216	1,413,216
At the end of the year	4,895,702	3,482,486
Net book amount	<u>2,170,350</u>	<u>3,583,566</u>

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

Methanol Chemicals Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2009

10 LONG TERM PREPAID EXPENSES

	2009 SR	2008 SR
Cost:		
At the beginning of the year	45,000,000	-
Additions during the year	-	45,000,000
At the end of the year	<u>45,000,000</u>	<u>45,000,000</u>
Amortisation:		
At the beginning of the year	3,125,000	-
Provided during the year	5,000,000	3,125,000
At the end of the year	<u>8,125,000</u>	<u>3,125,000</u>
Net book amount	<u>36,875,000</u>	<u>41,875,000</u>

Long term prepaid expenses represent SIDF loan appraisal fees and are being amortised over the period of the loan. Amortisation of the balance upto the date the plant is ready for its intended use is capitalised (note 7).

11 ACCOUNTS PAYABLE AND ACCRUALS

	2009 SR	2008 SR
Trade accounts payable	32,365,205	35,437,566
Amounts due to project contractor	28,651,825	22,556,058
Retention payable to project contractor	61,896,047	-
Amounts due to companies affiliated to shareholders (note 19)	1,187,671	1,210,546
Advance from customers	1,065,618	1,088,109
Accrued expenses	28,202,658	23,939,126
	<u>153,369,024</u>	<u>84,231,405</u>

12 SHORT TERM LOANS

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

13 TERM LOANS

	2009 SR	2008 SR
Saudi Industrial Development Fund - see note (a) below	480,000,000	300,000,000
Murabaha Facility from syndicate of banks - see note (b) below	583,604,213	773,467,147
Project Cost Overrun Murabaha Facility from syndicate of banks - see note (c) below	326,000,000	-
	<u>1,389,604,213</u>	<u>1,073,467,147</u>
Less: current portion	<u>(38,443,219)</u>	<u>(51,553,274)</u>
Non - current portion	<u>1,351,160,994</u>	<u>1,021,913,873</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2009

13 TERM LOANS (continued)

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

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

Project Murabaha Facility loan amounting to SR 435 million has been repaid on availment of SIDF loan and accordingly repayment schedule is restructured. As per the latest revised repayment schedule the company is liable to repay amounts drawn under Project Murabaha Facility plus profit in 12 half yearly installments ranging from SR 29 million to SR 38 million commencing from 2 Sha'ban 1431H, corresponding to 14 July 2010 and ending on 3 Rabi II 1437H, corresponding to 13 January 2016.

Final installments of SR 9 million relating to Refinance Murabaha Facility are repayable during 2010.

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

The facilities under Murabaha Agreement are secured by promissory notes.

c) In 2009, the company entered into Project Cost Overrun Murabaha Facility Agreement with syndicate of banks namely Arab Banking Corporation (B.S.C.), Riyad Bank, 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 the ongoing expansion projects. As per the agreement, the amounts drawn under this facility are repayable within two years from drawdown date i.e. 18 November 2009, either through cash generated from operations by the company or through right issues.

The facility under Project Cost Overrun Murabaha Agreement is secured by promissory notes.

The company is required to comply with certain covenants under all of above facilities. The installments due within one year from balance sheet date are shown as current liabilities.

14 SHARE CAPITAL

Share capital is divided into 120,600,000 shares (2008: 120,600,000 shares) of SR 10 each .

15 SHARE PREMIUM

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

	<i>2009</i>	<i>2008</i>
	<i>SR</i>	<i>SR</i>
Premium received	120,600,000	120,600,000
Share issue related expenses	(47,749,929)	(47,749,929)
	<u>72,850,071</u>	<u>72,850,071</u>

Methanol Chemicals Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2009

16 DIRECTORS' REMUNERATION

Board of Directors' remuneration has been shown as appropriation in the statement of changes in shareholders' equity in accordance with the company's by-laws.

17 SELLING AND DISTRIBUTION EXPENSES

	2009	2008
	SR	SR
Employee costs	2,651,612	3,308,725
Sales commission	8,910,233	8,377,401
Freight	30,186,665	37,943,768
Advertisement and promotion	435,851	63,416
Other	3,154,385	3,106,930
	<u>45,338,746</u>	<u>52,800,240</u>

18 GENERAL AND ADMINISTRATION EXPENSES

	2009	2008
	SR	SR
Employee costs	12,007,295	13,071,866
Depreciation	2,390,111	1,813,528
Travel and airfares	401,819	528,496
Professional fees	647,929	1,043,943
Other	4,447,367	5,373,668
	<u>19,894,521</u>	<u>21,831,501</u>

19 RELATED PARTY TRANSACTIONS AND BALANCES

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

Sales include an amount of SR 5,464,337 (2008: SR 3,467,762) in respect of finished goods sold to affiliated companies.

The cost of sales and expenses include amounts of SR 5,507,319 (2008: SR 18,758,889) in respect of purchase of inventories and services provided by companies affiliated to shareholders.

Amounts payable to companies affiliated to shareholders are included in accounts payable and accruals under note 11.

Methanol Chemicals Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2009

20 ZAKAT

Charge for the year

The zakat charge consists of:

	2009 SR	2008 SR
Provision for the year	2,282,548	900,000
Adjustment for previous years	16,109	231,432
Charge for the year	<u>2,298,657</u>	<u>1,131,432</u>

The provision is based on the following:

	2009 SR	2008 SR
Equity	1,390,342,954	678,109,782
Opening allowances and other adjustments	19,295,249	14,072,068
Book value of long term assets (net of related financing)	(1,300,853,814)	(892,459,986)
	<u>108,784,389</u>	<u>(200,278,136)</u>
Zakatable income for the year	<u>7,871,005</u>	<u>26,617,797</u>
Zakat base	<u>116,655,394</u>	<u>26,617,797</u>

Movements in provision

The movements in the zakat provision were as follows:

	2009 SR	2008 SR
At the beginning of the year	900,000	1,062,973
Provided during the year	2,298,657	1,131,432
Payments during the year	(282,272)	(1,294,405)
At the end of the year	<u>2,916,385</u>	<u>900,000</u>

Status of assessments

Zakat assessments have been agreed with the Department of Zakat and Income Tax (DZIT) up to 2007. The assessment for 2008 has not yet been raised by the DZIT.

Methanol Chemicals Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2009

21 EARNINGS PER SHARE

Earnings per share from net income is calculated by dividing the net income for the year by the weighted average number of shares outstanding during the year (2008: same basis). Earnings per share from main operation is calculated by dividing the income from main operation by the weighted average number of shares outstanding during the year (2008: same basis)

The following reflects the income and share data used in the earnings per share computations:

	2009 — SR	2008 SR
Net income for the year attributable to shareholders for earnings per share	22,054,989	38,236,101
Income from main operations attributable to shareholders for earnings per share	<u>30,701,605</u>	<u>45,939,921</u>
	2009	2008
Weighted average number of shares	<u>120,600,000</u>	<u>80,400,000</u>

22 CAPITAL COMMITMENTS

As at 31 December 2009, the company had capital expenditure commitments of SR 180 million (2008: SR 337 million).

23 SEGMENT INFORMATION

The management of the company views 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 72% (2008: 78%) of the sales of the company is through export.

24 RISK MANAGEMENT

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Company is subject to interest rate risk on its interest bearing assets and liabilities, including bank deposits, short term loans and term loans.

Credit risk

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 seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables.

The Company sells its products to a large number of pharmaceuticals, fertilisers and construction companies. Its 5 largest customers account for 54% of outstanding accounts receivable at 31 December 2009 (2008: 51%).

The Company has a broad based clientele. The credit risk associated with the accounts receivable is widely distributed amongst a large number of individual customers. As accounts receivable are stated net of any required provision and are short term in nature, fair value approximates carrying value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2009

24 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company 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. The Company manages its liquidity risk by ensuring that bank facilities are available. The Company's terms of sales require amounts to be paid within 90 days of the date of sale. Trade payables are normally settled within 60 days of the date of purchase.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company has undertaken transactions in Euro and US Dollars, during the year.

25 FAIR VALUES OF FINANCIAL INSTRUMENTS

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. Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of cash and bank balances, accounts receivable, bank margin deposits and other receivables. Financial liabilities consist of bank overdrafts, short term loans, term loans and payables.

The fair values of financial instruments are not materially different from their carrying values.

26 DERIVATIVE TRANSACTION

On 29 April 2008, the Company has entered into a Commission Rate Swap Option (Swap option) contract with a Project Murabaha Participant Bank in order to fix LIBOR at 4% effective from 15 July 2010 for its Project Murabaha loan of SR 341 million. The derivative transaction does not qualify for hedge accounting and is accordingly treated as trading instrument by the company. Management intends to hold the derivative to its maturity as it is primarily contracted to fix the rate of commission on its Project Murabaha loan and does not expect any gain/ loss to be earned/ incurred on this transaction during the period of contract.

27 CONTINGENT LIABILITY

The bankers of the company have issued performance guarantees on behalf of the company amounting to SR 60,511,935 (2008 : SR 84,341,404).

28 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform with the presentation in the current year.