

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

**INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

30 JUNE 2009

Ernst & Young

 **ERNST & YOUNG**


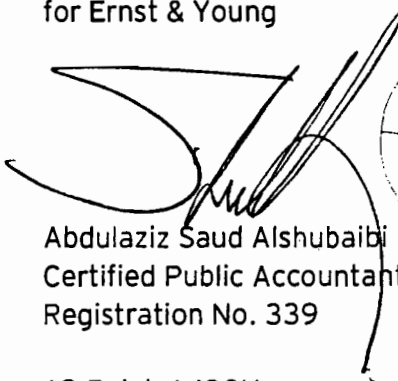
**REVIEW REPORT TO THE SHAREHOLDERS OF
METHANOL CHEMICALS COMPANY (A SAUDI JOINT STOCK COMPANY)****Scope of limited review:**

We have reviewed the accompanying interim balance sheet of Methanol Chemicals Company (A Saudi Joint Stock Company) as at 30 June 2009, the related interim statement of income for the three months period and the six months period ended on 30 June 2009 and the interim statement of cash flows for the six months period ended on 30 June 2009. These interim financial statements are the responsibility of the Company's board of directors and have been prepared by them and submitted to us together with all the information and explanations which we required. Our review was limited and was conducted in accordance with Saudi Organisation of Certified Public Accountants (SOCPA) standard on interim financial information. The limited review consists principally of analytical procedures applied to financial data and inquiries of the company personnel responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion of limited review:

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

for Ernst & Young

Abdulaziz Saud Alshubaibi
Certified Public Accountant
Registration No. 33913 Rajab 1430H
6 July 2009

Alkhobar

Methanol Chemicals Company (A Saudi Joint Stock Company)

INTERIM BALANCE SHEET (UNAUDITED)

As At 30 June 2009

	Note	At 30 June 2009 SR	At 30 June 2008 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	137,403,354	114,963,985
Margin deposits with banks		2,334,977	9,259,197
Accounts receivable and prepayments		145,763,945	199,457,494
Inventories		38,743,215	41,056,395
TOTAL CURRENT ASSETS		324,245,491	364,737,071
NON CURRENT ASSETS			
Property, plant and equipment		2,367,328,023	1,533,601,930
Deferred charges		2,876,958	4,290,174
Long term prepaid expenses		39,375,000	-
TOTAL NON CURRENT ASSETS		2,409,579,981	1,537,892,104
TOTAL ASSETS		2,733,825,472	1,902,629,175
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable and accruals		182,240,679	83,556,219
Bank overdrafts and short term loans		18,000,000	138,895,000
Current portion of term loans		43,737,608	9,010,679
Zakat provision		1,333,837	600,000
TOTAL CURRENT LIABILITIES		245,312,124	232,061,898
NON CURRENT LIABILITIES			
Term loans		1,070,801,284	964,495,715
Employees' terminal benefits		17,650,396	12,441,032
TOTAL NON CURRENT LIABILITIES		1,088,451,680	976,936,747
TOTAL LIABILITIES		1,333,763,804	1,208,998,645
EQUITY			
Share capital		1,206,000,000	603,000,000
Share premium		72,850,071	-
Statutory reserve		15,776,791	12,441,485
Retained earnings		105,434,806	78,189,045
TOTAL EQUITY		1,400,061,668	693,630,530
TOTAL LIABILITIES AND EQUITY		2,733,825,472	1,902,629,175

The attached notes 1 to 4 form part of these interim financial statements.

Methanol Chemicals Company (A Saudi Joint Stock Company)

INTERIM STATEMENT OF INCOME (UNAUDITED)

Period Ended 30 June 2009

	<i>Period from 1 April 2009 to 30 June 2009 SR</i>	<i>Period from 1 April 2008 to 30 June 2008 SR</i>	<i>Period from 1 January 2009 to 30 June 2009 SR</i>	<i>Period from 1 January 2008 to 30 June 2008 SR</i>
Sales	102,325,599	145,990,043	208,240,487	274,763,660
Cost of sales	(76,825,029)	(115,352,633)	(157,020,193)	(214,919,680)
GROSS PROFIT	25,500,570	30,637,410	51,220,294	59,843,980
EXPENSES				
Selling and distribution	(12,084,183)	(13,418,923)	(24,479,797)	(25,074,865)
General and administration	(5,138,601)	(5,610,319)	(10,856,287)	(10,509,033)
Amortisation of deferred charges	(353,304)	(353,304)	(706,608)	(706,608)
	(17,576,088)	(19,382,546)	(36,042,692)	(36,290,506)
INCOME FROM MAIN OPERATIONS	7,924,482	11,254,864	15,177,602	23,553,474
Other income/ (expenses), net	77,138	(445,967)	446,000	(559,824)
Financial charges	(2,049,689)	(3,023,703)	(4,285,888)	(6,659,403)
INCOME BEFORE ZAKAT	5,951,931	7,785,194	11,337,714	16,334,247
Zakat	(350,000)	(300,000)	(700,000)	(813,499)
NET INCOME FOR THE PERIOD	5,601,931	7,485,194	10,637,714	15,520,748
Earnings per share (from net income)	0.05	0.12	0.09	0.26
Earnings per share (from main operations)	0.07	0.19	0.13	0.39

The attached notes 1 to 4 form part of these interim financial statements.

Methanol Chemicals Company (A Saudi Joint Stock Company)

INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

Period Ended 30 June 2009

Note	<i>Period from 1 January 2009 to 30 June 2009 SR</i>	<i>Period from 1 January 2008 to 30 June 2008 SR</i>
OPERATING ACTIVITIES		
Income before zakat	11,337,714	16,334,247
Adjustments for:		
Depreciation	13,062,938	12,589,788
Amortisation	706,608	706,608
Employees' terminal benefits, net	1,671,813	2,513,472
Financial charges	4,285,888	6,659,403
Loss/ (profit) on disposal of plant and equipment	582	(14,500)
	<u>31,065,543</u>	<u>38,789,018</u>
Changes in operating assets and liabilities:		
Receivables	31,290,743	(42,564,105)
Inventories	17,012,913	(3,129,683)
Payables	1,177,768	3,370,652
	<u>80,546,967</u>	<u>(3,534,118)</u>
Cash from (used in) operations	80,546,967	(3,534,118)
Financial charges paid	(4,285,888)	(6,659,403)
Zakat paid	(266,163)	(1,276,472)
	<u>75,994,916</u>	<u>(11,469,993)</u>
Net cash from (used in) operating activities	75,994,916	(11,469,993)
INVESTING ACTIVITIES		
Purchase of plant and equipment	(398,156,995)	(518,521,445)
Proceeds from disposal of plant and equipment	582	21,990
Movement in margin deposits with banks	2,384,425	51,319,585
Net movement in amount due to project contractors	95,912,506	14,503,934
Net movement in long term prepaid expenses	2,500,000	-
	<u>(297,359,482)</u>	<u>(452,675,936)</u>
Net cash used in investing activities	(297,359,482)	(452,675,936)
FINANCING ACTIVITIES		
Net movement in bank overdrafts and short term loans	(12,000,000)	(69,523,333)
Net movement in term loans	(3,928,255)	635,831,973
	<u>(15,928,255)</u>	<u>566,308,640</u>
Net cash (used in) from financing activities	(15,928,255)	566,308,640
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(237,292,821)	102,162,711
Cash and cash equivalents at the beginning of the period	374,696,175	12,801,274
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD 3	137,403,354	114,963,985

The attached notes 1 to 4 form part of these interim financial statements.

Methanol Chemicals Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS

30 June 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.

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.

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 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 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 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 provision 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. |

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. 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.

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 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 or sale 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.

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.

Statutory reserve

As required by Saudi Arabian Regulations for Companies, 10% of the net income for the period 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.

Employees' terminal benefits

Provision is made for amounts payable in accordance with the employees' contracts of employment applicable to their 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.

Sales

Sales represent 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 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 interim statement of income.

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.

Directors' remuneration

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

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.

Earnings per share from main operations is calculated by dividing income from main operations 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 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 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 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.

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. The interim financial results may not be considered an accurate basis for the actual results for the whole year.

Methanol Chemicals Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

30 June 2009

3 CASH AND CASH EQUIVALENTS

	<i>At 30 June 2009</i>	<i>At 30 June 2008</i>
	<i>SR</i>	<i>SR</i>
Bank balances and cash	48,784,294	114,963,985
Short term bank deposits	88,619,060	-
	<u>137,403,354</u>	<u>114,963,985</u>

4 SEGMENTAL 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 73% of the sales of the company for the period from 1 April 2009 to 30 June 2009 is through export (2008: 77%).