

**MIDDLE EAST COMPANY FOR MANUFACTURING
AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW REPORT**

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2021

**MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2021**

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**INDEPENDENT AUDITOR'S REVIEW REPORT ON
THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
TO THE SHAREHOLDERS OF MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING
PAPER (A SAUDI JOINT STOCK COMPANY)**

Introduction:

We have reviewed the accompanying interim condensed consolidated statement of financial position of Middle East Company for Manufacturing and Producing Paper (A Saudi Joint Stock Company) ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 31 March 2021 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review:

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed [consolidated] financial statements are not prepared, in all material respects, in accordance with IAS 34 and IFRS1 that are endorsed in the Kingdom of Saudi Arabia.

Other matter

The interim condensed consolidated financial statements of the Group for the three-month period ended 31 March 2020 were reviewed by another auditor who expressed an unmodified review conclusion on those financial statements on 5 May 2020.

for Ernst & Young



Abdullah Ali AlMakrami
Certified Public Accountant
License No. 476



20 Ramadan 1442H
2 May 2021G

Jeddah

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

(Expressed in Saudi Riyals unless otherwise stated)

	Note	31 March 2021 (Unaudited)	31 December 2020 (Audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	1,079,160,990	1,092,922,022
Right-of-use assets	6	38,806,108	38,285,472
Intangible assets		716,177	889,807
TOTAL NON-CURRENT ASSETS		1,118,683,275	1,132,097,301
CURRENT ASSETS			
Inventories		171,331,164	167,165,681
Trade receivables		194,917,300	186,049,994
Prepayments and other receivables		12,403,323	13,234,702
Other current assets		27,022,250	33,350,966
Financial asset at fair value through profit or loss		5,593	5,581
Cash and cash equivalents		32,834,000	45,455,272
TOTAL CURRENT ASSETS		438,513,630	445,262,196
TOTAL ASSETS		1,557,196,905	1,577,359,497
EQUITY AND LIABILITIES			
EQUITY			
Share capital		500,000,000	500,000,000
Statutory reserve		88,010,144	86,237,989
Treasury shares		(6,816,812)	(6,816,812)
Retained earnings		188,521,212	172,571,815
TOTAL EQUITY		769,714,544	751,992,992
NON-CURRENT LIABILITIES			
Long-term borrowings	7	247,309,194	304,157,790
Lease liabilities	8	31,894,780	31,035,496
Other financial liability	9	40,129,824	39,923,049
Employee benefits		44,100,220	44,019,012
TOTAL NON-CURRENT LIABILITIES		363,434,018	419,135,347
CURRENT LIABILITIES			
Zakat payable	10	6,021,637	4,693,350
Long-term borrowings – current portion	7	176,723,256	192,222,731
Lease liabilities – current portion	8	8,659,279	8,954,390
Other financial liability – current portion	9	6,613,875	6,579,796
Derivative financial instruments		-	364,800
Short-term borrowings		121,911,302	86,296,606
Trade and other payables		96,072,996	100,510,940
Other current liabilities		8,045,998	6,608,545
TOTAL CURRENT LIABILITIES		424,048,343	406,231,158
TOTAL LIABILITIES		787,482,361	825,366,505
TOTAL EQUITY AND LIABILITIES		1,557,196,905	1,577,359,497


Chief Financial Officer


Chief Executive Officer


Chairman of the Board

The attached notes from 1 to 15 form an integral part of these interim condensed consolidated financial statements.

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (UNAUDITED)

For the three-month period ended 31 March 2021
(Expressed in Saudi Riyals unless otherwise stated)


		<i>31 March 2021 (Unaudited)</i>	<i>31 March 2020 (Unaudited)</i>
Revenue	<i>Note</i>	200,514,376	173,865,625
Cost of revenue		(152,503,239)	(138,252,446)
GROSS PROFIT		48,011,137	35,613,179
Selling and distribution expenses		(14,943,825)	(11,703,084)
General and administrative expenses		(13,754,571)	(13,802,964)
Impairment (losses) / reversals on financial assets		(1,287,829)	481,778
Fair value gain / (loss) on derivative financial instruments		364,800	(907,703)
Other income, net		4,627,065	31,254
OPERATING PROFIT		23,016,777	9,712,460
Finance costs		(3,725,898)	(5,459,160)
PROFIT BEFORE ZAKAT		19,290,879	4,253,300
Zakat expense	10	(1,569,327)	(129,488)
PROFIT FOR THE PERIOD		17,721,552	4,123,812
Other comprehensive income			
<i>Items not to be reclassified to statement of profit or loss in subsequent periods:</i>			
Actuarial gain on re-measurement of employee benefit obligations		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		17,721,552	4,123,812
Earnings per share			
Basic and diluted, earnings per share attributable to ordinary equity holders of the Group (Saudi Riyals)	11	0.36	0.08



Chief Financial Officer



Chief Executive Officer



Chairman of the Board

The attached notes from 1 to 15 form an integral part of these interim condensed consolidated financial statements.

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three-month period ended 31 March 2021

(Expressed in Saudi Riyals unless otherwise stated)

	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Treasury shares</i>	<i>Retained earnings</i>	<i>Total</i>
Balance as at 1 January 2020 (Audited)	500,000,000	84,220,419	(6,816,812)	153,974,608	731,378,215
Profit for the period	-	-	-	4,123,812	4,123,812
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	4,123,812	4,123,812
Transfer to statutory reserve	-	412,381	-	(412,381)	-
Balance as at 31 March 2020 (Unaudited)	<u>500,000,000</u>	<u>84,632,800</u>	<u>(6,816,812)</u>	<u>157,686,039</u>	<u>735,502,027</u>
Balance as at 1 January 2021 (Audited)	500,000,000	86,237,989	(6,816,812)	172,571,815	751,992,992
Profit for the period	-	-	-	17,721,552	17,721,552
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	17,721,552	17,721,552
Transfer to statutory reserve	-	1,772,155	-	(1,772,155)	-
Balance as at 31 March 2021 (Unaudited)	<u>500,000,000</u>	<u>88,010,144</u>	<u>(6,816,812)</u>	<u>188,521,212</u>	<u>769,714,544</u>



Chief Financial Officer



Chief Executive Officer



Chairman of the Board

The attached notes from 1 to 15 form an integral part of these interim condensed consolidated financial statements.

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)


For the three-month period ended 31 March 2021

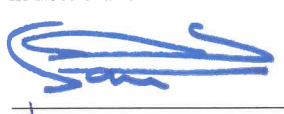
(Expressed in Saudi Riyals unless otherwise stated)


	Note	31 March 2021 (Unaudited)	31 March 2020 (Unaudited)
OPERATING ACTIVITIES			
Profit before zakat		19,290,879	4,253,300
<i>Adjustments to reconcile profit before zakat to net cash flows:</i>			
Depreciation and amortization		27,057,472	26,045,561
Finance costs		3,725,898	5,459,160
Gain on disposal of property and equipment		(2,405,532)	-
Allowance / (reversal) for impairment of trade receivables		1,287,829	(481,778)
Allowance for slow moving inventories		750,000	900,000
Provision against advances to suppliers and employees		155,950	-
Employee benefits provision		1,267,804	1,479,168
Fair value loss on derivative financial instruments		(364,800)	907,703
Gain on disposal of financial assets at fair value through profit or loss		-	(171,535)
Fair value gain on financial asset at fair value through profit or loss		(12)	(11,727)
		<u>50,765,488</u>	<u>38,379,852</u>
<i>Working capital adjustments:</i>			
Inventories		(4,915,483)	15,717,562
Trade receivables		(10,155,135)	(20,735,763)
Prepayments and other receivables		831,379	(1,999,848)
Other current assets		6,172,766	6,990,387
Trade and other payables		(4,340,527)	5,087,389
Other current liabilities		1,437,453	5,862,689
		<u>39,795,941</u>	<u>49,302,268</u>
Cash from operations		39,795,941	49,302,268
Finance costs paid		(3,543,615)	(5,143,711)
Zakat paid	10	(241,040)	-
Employee benefits paid		(1,186,596)	(1,130,061)
		<u>34,824,690</u>	<u>43,028,496</u>
Net cash flows from operating activities		34,824,690	43,028,496
INVESTING ACTIVITIES			
Purchase of property and equipment		(10,902,495)	(18,344,581)
Proceeds from disposal of property and equipment		2,437,798	-
Purchase of financial asset at fair value through profit or loss		-	(2,404,300)
Proceeds from sale of investments at fair value through profit or loss		-	2,575,835
		<u>(8,464,697)</u>	<u>(18,173,046)</u>
Net cash flows used in investing activities		(8,464,697)	(18,173,046)
FINANCING ACTIVITIES			
Net change in short-term borrowings		35,734,197	(2,253,707)
Repayments of long-term borrowings		(72,669,413)	(21,482,143)
Payment of principle portion of lease liabilities		(2,046,049)	(1,199,042)
		<u>(38,981,265)</u>	<u>(24,934,892)</u>
Net cash flows used in financing activities		(38,981,265)	(24,934,892)
DECREASE IN CASH AND CASH EQUIVALENTS		<u>(12,621,272)</u>	<u>(79,442)</u>
Cash and cash equivalents at the beginning of the period		45,455,272	23,213,483
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u>32,834,000</u>	<u>23,134,041</u>

MAJOR NON-CASH TRANSACTIONS

Major non-cash transactions are reflected in note 5 and 6


Chief Financial Officer


Chief Executive Officer


Chairman of the Board

The attached notes from 1 to 15 form an integral part of these interim condensed consolidated financial statements.

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended 31 March 2021

(Expressed in Saudi Riyals unless otherwise stated)

1 CORPORATE INFORMATION

Middle East Company for Manufacturing and Producing Paper (“MEPCO” or the “Company”) and its subsidiaries (collectively the “Group”) are engaged in production and sale of container board and industrial paper. MEPCO is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia.

The Company obtained its Commercial Registration No. 4030131516 on 3 Rajab 1421H (corresponding to 30 September 2000). During the year 2012, the legal status of the Company converted from a limited liability company into a Saudi Closed Joint Stock Company. The Ministry of Commerce approved the conversion of the Company to a Saudi Closed Joint Stock Company by Ministerial Decision No. 44 dated 14 Safar 1433H (corresponding to 8 January 2012). The Company’s application for its initial public offering was accepted by the Capital Market Authority (CMA) on 25 Jumada I 1436H (corresponding to 16 March 2015). The Company was converted to Saudi Joint Stock Company on 14 Rajab 1436H (corresponding to 3 May 2015).

At 31 March 2021, the Company had investments in the following subsidiaries:

<i>Subsidiary name</i>	<i>Country of incorporation</i>	<i>Principal business activity</i>	<i>Effective Ownership interest</i>
Waste Collection and Recycling Company Limited (“WASCO”)	Saudi Arabia	Whole and retail sales of paper, carton and plastic waste	100%
Special Achievements Company Limited (“SACO”)	Saudi Arabia	Whole and retail sales of used papers, carton and plastic products	100%

During 2018, the Company had started the process to transfer the 3% shareholding of WASCO and SACO in each other to the Company. The transfer of SACO’s 3% shareholding in WASCO to the Company was completed during 2018. However, the legal formalities for the transfer of WASCO’s 3% shareholding in SACO to the Company are under process as at the date of the issuance of these interim condensed consolidated financial statements.

On 21 January 2021 (corresponding to 8 Jumada II 1442H), the Group has established a subsidiary namely “Roots Paper Manufacturing Company” (a one-person limited liability company) with 100% ownership of Parent Company to implement the expansion project of tissue paper factory in the industrial valley of King Abdullah Economic City, Rabigh, Saudi Arabia. The Parent Company has not yet invested in paid-up share capital of the subsidiary and no significant transactions are incurred in Roots Paper Manufacturing Company during the period ended 31 March 2021.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The interim condensed consolidated financial statements for the three month period ended 31 March 2021 have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia as well as other standards and pronouncements that are endorsed by Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2020 (see also note 2.4).

2.2 Basis of measurement

These interim condensed consolidated financial statements are prepared under the historical cost convention, except for derivative financial instruments and investment at fair value through profit or loss which are measured at fair value. For defined benefit obligations, actuarial present value calculations are used.

2.3 Functional and presentation currency

These interim condensed consolidated financial statements are presented in Saudi Riyals (SR), which is the Group’s functional and presentation currency.

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month period ended 31 March 2021

(Expressed in Saudi Riyals unless otherwise stated)

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and accompanying disclosures. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, were disclosed in annual consolidated financial statements for the year ended 31 December 2020.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the globe including Saudi Arabia. The Saudi Arabian government took many initiatives to contain the spread of virus which included restrictions on travel, gathering of people and enactment of curfew timings. This resulted in many non-essential businesses to close until further notice. The industry of packaging material is considered as an essential industry by the regulatory authorities and accordingly, the Group was permitted to operate under the normal course of business and its employees to attend the offices after taking precautionary measures in accordance with rules laid down by regulatory authorities. Considering these factors, the Group's management carried out an impact assessment on the overall Group's operations and business aspects including factors like dealing with customers, seamless products delivery processes, collections protocols, uninterrupted material supply, strong working capital projections, etc. and concluded that, as at the issuance date of these interim condensed consolidated financial statements, the Group did not have significant adverse impact on its operations and businesses due to COVID-19 and no significant changes are required to the judgements, assumptions and key estimates. However, in the view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments and interpretations apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Group assessed that the impact of transition from LIBOR to risk free rates will not be significant on Group's interim condensed consolidated financial statements as all of its LIBOR based borrowings will be paid before or during the year 2021.

4 SEGMENT INFORMATION

The Group has two operating and reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different marketing strategies. For each of the strategic business units, the Group's top management reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Manufacturing segment represents manufacturing of container board and industrial paper.
- Trading segment represents wholesale and retail sales of paper, carton and plastic waste.

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month period ended 31 March 2021

(Expressed in Saudi Riyals unless otherwise stated)

4 SEGMENT INFORMATION (continued)

Segment results that are reported to the top management (Chairman Board of Directors, Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Financial Officer (CFO)) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenues and profit (loss) before zakat, as included in the internal management reports that are reviewed by the top management. The following table presents segment information for the three-month period ended 31 March 2021:

	<i>Manufacturing</i>	<i>Trading</i>	<i>Elimination</i>	<i>Total</i>
<i>Results for the three-month period ended 31 March 2021 (Unaudited)</i>				
Revenues	193,981,280	90,524,854	(83,991,758)	200,514,376
External revenues	193,981,280	6,533,096	-	200,514,376
Segment profit before zakat	19,201,304	5,245,533	(5,155,958)	19,290,879
Finance costs	3,389,560	336,338	-	3,725,898
Depreciation and amortization	23,988,753	3,068,719	-	27,057,472
<i>Results for the three-month period ended 31 March 2020 (Unaudited)</i>				
Revenues	170,433,098	42,636,183	(39,203,656)	173,865,625
External revenues	170,433,098	3,432,527	-	173,865,625
Segment profit / (loss) before zakat	4,253,300	(3,963,871)	(3,963,871)	4,253,300
Finance costs	5,191,124	268,036	-	5,459,160
Depreciation and amortization	23,175,386	2,870,175	-	26,045,561
<i>As of 31 March 2021 (Unaudited)</i>				
Total assets	1,469,777,476	146,707,965	(59,288,536)	1,557,196,905
Total liabilities	700,062,932	104,396,330	(16,976,901)	787,482,361
<i>As of 31 December 2020 (Audited)</i>				
Total assets	1,495,085,743	145,854,491	(63,580,737)	1,577,359,497
Total liabilities	743,092,751	108,698,814	(26,425,060)	825,366,505

The Group makes sales in local and foreign markets in Middle East, Africa, Asia and Europe. Export sales during the three-month period ended 31 March 2021 amounted to SR 85.95 million (three-month period ended 31 March 2020: SR 73.03 million). Local external sales in Kingdom of Saudi Arabia, during the three-month period ended 31 March 2021 amounted to SR 114.56 million (three-month period ended 31 March 2020: SR 100.83 million).

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month period ended 31 March 2021

(Expressed in Saudi Riyals unless otherwise stated)

5 PROPERTY, PLANT AND EQUIPMENT

	<i>Land</i>	<i>Buildings and mobile cabinets</i>	<i>Machinery and equipment</i>	<i>Furniture and office equipment</i>	<i>Motor vehicles</i>	<i>Capital work-in- progress</i>	<i>Total</i>
At 1 January 2021							
Cost	169,704,302	189,027,010	1,496,547,666	21,647,457	42,842,603	103,007,179	2,002,776,217
Accumulated depreciation	-	(63,630,479)	(814,671,429)	(16,731,424)	(34,820,863)	-	(929,854,195)
Net book value (Audited)	169,704,302	125,396,531	681,876,237	4,916,033	8,021,740	103,007,179	1,092,922,022
Three-month period ended 31 March 2021							
Opening net book value	169,704,302	125,396,531	681,876,237	4,916,033	8,021,740	103,007,179	1,092,922,022
Additions	-	88,000	2,820,782	1,829,019	641,160	6,036,685	11,415,646
Transfers							
- Cost	-	-	20,735,852	-	-	(20,735,852)	-
Disposals							
- Cost	-	-	(6,645,752)	(432,200)	(10,430,082)	-	(17,508,034)
- Accumulated depreciation	-	-	6,619,199	432,077	10,424,492	-	17,475,768
Depreciation charge	-	(1,633,136)	(22,525,739)	(483,301)	(502,236)	-	(25,144,412)
Net book value as at 31 March 2021	169,704,302	123,851,395	682,880,579	6,261,628	8,155,074	88,308,012	1,079,160,990
At 31 March 2021							
Cost	169,704,302	189,115,010	1,513,458,548	23,044,276	33,053,681	88,308,012	2,016,683,829
Accumulated depreciation	-	(65,263,615)	(830,577,969)	(16,782,648)	(24,898,607)	-	(937,522,839)
Net book value (Unaudited)	169,704,302	123,851,395	682,880,579	6,261,628	8,155,074	88,308,012	1,079,160,990

- 5.1 During the three-month period ended 31 March 2021, finance costs amounting to SR 0.51 million were capitalized as part of property, plant and equipment (year ended 31 December 2020: SR 2.8 million).
- 5.2 Capital work-in-progress as at 31 March 2021 includes costs incurred related to the ongoing projects for plant and machinery. The projects are expected to complete during the second quarter of 2022. Refer to note 13 for capital commitments.
- 5.3 All land, buildings and mobile cabinets, machinery and equipment, furniture and office equipment relating to the Company are pledged as collateral to Saudi Industrial Development Fund (SIDF) as a first-degree pledge (note 7).

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month period ended 31 March 2021
(Expressed in Saudi Riyals unless otherwise stated)

6 RIGHT OF USE ASSETS

	<i>Leased Land</i>	<i>Buildings</i>	<i>Total</i>
At 1 January 2021			
Cost	48,028,022	4,574,011	52,602,033
Accumulated depreciation	(11,898,992)	(2,417,569)	(14,316,561)
Net book value (Audited)	<u>36,129,030</u>	<u>2,156,442</u>	<u>38,285,472</u>
Three-month period ended 31 March 2021			
Opening net book value	36,129,030	2,156,442	38,285,472
Additions	-	2,260,066	2,260,066
Depreciation charge	(1,347,818)	(391,612)	(1,739,430)
Closing net book value as at 31 March 2021	<u>34,781,212</u>	<u>4,024,896</u>	<u>38,806,108</u>
At 31 March 2021			
Cost	48,028,022	6,834,077	54,862,099
Accumulated depreciation	(13,246,810)	(2,809,181)	(16,055,991)
Net book value (Unaudited)	<u>34,781,212</u>	<u>4,024,896</u>	<u>38,806,108</u>

7 LONG-TERM BORROWINGS

	<i>31 March 2021 (Unaudited)</i>	<i>31 December 2020 (Audited)</i>
Saudi Industrial Development Fund (“SIDF”)	76,576,865	106,962,548
Islamic banking facilities (“Tawarruq”)	347,455,585	389,417,973
Long-term borrowings	424,032,450	496,380,521
Less: current portion shown under current liabilities	(176,723,256)	(192,222,731)
Long term borrowings shown under non-current liabilities	<u>247,309,194</u>	<u>304,157,790</u>

- (a) The Company signed a loan agreement with SIDF amounting to SR 124.7 million in 2013 to finance the construction of manufacturing facilities. This loan was fully utilized as at 31 December 2017. The loan is repayable in unequal semi-annual instalments up to March 2022.

During 2020, the Company has obtained new facility from SIDF amounting Saudi Riyals 35.3 million to finance the construction of manufacturing facilities. The loan is repayable in unequal semi-annual instalments up to February 2025.

Upfront fees were deducted at the time of receipt of the loans. These fees are amortised over the periods of respective loans. The loans bear a follow up fee to be paid on periodic basis. Under the terms of the SIDF loan agreement, the Company’s property, plant and equipment are pledged as collateral to SIDF.

- (b) The Company has also obtained long-term credit facilities from commercial banks. These loans bear financial charges based on prevailing market rates in Kingdom of Saudi Arabia (“SIBOR”) and United Kingdom (“LIBOR”).

Upfront fees were deducted at the time of receipt of loans from commercial banks, which are amortised over the period of the respective loans. These loans are repayable up to the year 2025.

The above loans and facilities include certain financial covenants which require the Company to maintain certain levels of current and leverage ratios and certain restriction on dividend distribution and also notify the bank any breach or probable breach immediately. The Company was not in compliance related to Debt Service Coverage Ratio at 31 March 2021 and has taken waiver letters in this regard from the respective banks, before the period end.

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8 LEASE LIABILITIES

Movement in lease liabilities is summarized as follows:

	<i>31 March 2021 (Unaudited)</i>	<i>31 December 2020 (Audited)</i>
At the beginning of the period / year	39,989,886	43,353,090
Additions	2,260,066	1,396,904
Remeasurement	-	956,940
Accretion of interest	350,156	1,610,737
Payments	(2,046,049)	(7,327,785)
At the end of the period / year	40,554,059	39,989,886

The scheduled maturities of the lease liabilities as at period ended 31 March 2021 are as follows:

	<i>Principal amount</i>	<i>Interest</i>	<i>Net lease liabilities</i>
Current portion	9,996,367	(1,337,088)	8,659,279
Non-current portion	35,790,965	(3,896,185)	31,894,780
	45,787,332	(5,233,273)	40,554,059

9 OTHER FINANCIAL LIABILITY

During the year ended 31 December 2020, the Company has signed an agreement with Emaar, the Economy City for purchase of a plot of land amounting to SR 83,177,640 under deferred payments arrangement for its future expansion projects. The Company is required to pay 20% of the liability in advance and remaining liability in unequal annual instalments ending on 31 March 2029. Later the Company re-negotiate with the seller on cash value and payment terms and accordingly the revised cash value is SR 71,205,403 and total purchase price of SR 74,859,876 payable in unequal annual instalments ending on July 31, 2027.

The discounted liability related to land purchase arrangements is as follows:

	<i>31 March 2021 (Unaudited)</i>	<i>31 December 2020 (Audited)</i>
Total liability	46,743,699	46,502,845
Less: current portion shown under current liabilities	(6,613,875)	(6,579,796)
Long term liability shown under non-current liabilities	40,129,824	39,923,049

The scheduled maturities of the liability related to land purchase arrangements as at period ended 31 March 2021 are as follows:

	<i>Gross amount</i>	<i>Discounting impact</i>	<i>Net liability</i>
Current portion	7,485,988	(872,113)	6,613,875
Non-current portion	42,420,596	(2,290,772)	40,129,824
	49,906,584	(3,162,885)	46,743,699

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10 ZAKAT

10.1 Components of zakat base

The Company and its subsidiaries file separate zakat declarations which are filed on an unconsolidated basis. The significant components of the zakat base of each company under zakat and income tax regulations are principally comprised of shareholder's equity, provisions at the beginning of the year, long-term borrowings and adjusted net income, less deductions for the adjusted net book value of property, plant and equipment and certain other items.

10.2 Provision for zakat

	<i>31 March 2021 (Unaudited)</i>	<i>31 December 2020 (Audited)</i>
At the beginning of the period/year	4,693,350	1,437,193
Provisions		
- Provision for the current period / year	1,569,327	4,693,350
- Adjustment related to prior years	-	(176,587)
Payments	(241,040)	(1,260,606)
At the end of the period / year	6,021,637	4,693,350

10.3 Status of assessments

The zakat assessments of the Group are finalized for the years through 31 December 2008.

During 2016, the Company received additional zakat assessments amounting to SR 16.54 million for the years 2009 to 2012. The Company has settled an amount of SR 0.04 million on the non-objected items and submitted an objection against the remaining balance amount.

During 2019, the GAZT has issued a revised assessment reducing the additional assessment amount to SR 6.83 million. The Company has settled SR 1.2 million and submitted the objection against the remaining revised assessment.

During July 2020, the GAZT has issued an assessment for the year 2014, without any additional claim on zakat.

During December 2020, the GAZT issued an assessment for the years ended 31 December 2015 to 2018 claiming SR 30 million in additional Zakat. The Company duly submitted its objection during February 2021. The GAZT has rejected the objection and the Company is in process to escalate the dispute to the General Secretariat for Tax Committees ("GSTC") to be heard at the Tax Violation and Disputes Resolution Committee ("TVDR").

However, management based on GAZT regulation interpretations and supporting documents submitted along with objections, believes that the ultimate outcome of pending assessments will not result in any material additional liability to the Company. The zakat declarations of the Company for the years 2013 to 2019 are filed with the GAZT and unrestricted zakat certificates have been obtained till 30 April 2021.

The zakat declarations of WASCO and SACO for the years 2009 to 2019 are currently under review by the GAZT and unrestricted zakat certificates have been obtained till 30 April 2021.

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11 EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

	<i>Three-month period ended</i>	
	<i>31 March 2021 (Unaudited)</i>	<i>31 March 2020 (Unaudited)</i>
Net profit attributable to owners of the Company	<u>17,721,552</u>	<u>4,123,812</u>
Weighted average number of shares	<u>49,700,000</u>	<u>49,700,000</u>
Basic and diluted earnings per share (SR per share)	<u>0.36</u>	<u>0.08</u>

12 FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. The management assessed that the fair value of cash and cash equivalents, trade and other receivables. Short-term borrowings and trade payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

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12 FAIR VALUE OF ASSETS AND LIABILITIES (continued)

The Group fair values the derivative financial instruments and investment at fair value through profit or loss. The fair value of derivative financial instruments is calculated as the present value of the estimated future cash flows based on observable yield curves. The fair value of investment at fair value through profit or loss is based on the net asset value communicated by the fund manager. The fair values under Level 2 were as follows:

	<i>31 March 2021</i>	<i>31 December 2020</i>
Level 2		
Derivative financial instruments – Negative fair value	-	(364,800)
Investment at fair value through profit or loss	<u>5,593</u>	<u>5,581</u>

During the three-month period ended 31 March 2021 and year ended 31 December 2020, there were no movements between the levels.

13 CONTINGENCIES AND COMMITMENTS

- (a) As at 31 March 2021, the Group had outstanding letters of credit amounting to SR 6.42 million (31 December 2020: SR 0.68 million) and letters of guarantee amounting to SR 0.54 million (31 December 2020: SR 5.12 million) that were issued in the normal course of the business.
- (b) The capital expenditure contracted by the Group but not incurred till 31 March 2021 was approximately SR 24.16 million (31 December 2020: SR 55.1 million).

14 RELATED PARTY TRANSACTIONS AND BALANCES

14.1 Key management compensation

Compensation for key management is as follows:

	<i>Three-month period ended</i>	
	<i>31 March 2021 (Unaudited)</i>	<i>31 March 2020 (Unaudited)</i>
Short term benefits	3,071,345	2,769,606
Post-employment benefits	59,200	69,817
Termination benefits	128,914	158,237
	<u>3,259,459</u>	<u>2,997,660</u>

Compensation to key management personnel includes salaries, and contributions to post-employment defined benefit plan.

14.2 Related party transactions

Significant transactions with related parties in the ordinary course of business included in the condensed consolidated interim financial information is summarized below:

<i>Related party</i>	<i>Description of transaction</i>	<i>Relationship</i>	<i>Three-month period ended</i>	
			<i>31 March 2021 (Unaudited)</i>	<i>31 March 2020 (Unaudited)</i>
Directors	Directors' remuneration	Directors	659,495	634,275
Al Masirah Industrial Company	Purchase of materials	Company of chairman board of directors	4,464,886	-

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14.3 Related party balances

Significant due from/(to) balances with related parties are summarized below:

	<i>31 March 2021 (Unaudited)</i>	<i>31 December 2020 (Audited)</i>
Advances to key management personnel	803,057	419,980
Accrued directors' remuneration	(717,750)	-
Al Masirah International Industrial Investments Company	(1,567,231)	(1,674,806)

15 AUTHORISATION OF FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were authorised for issue by the Company's Board of Directors on 20 Ramadan 1442H (corresponding to 2 May 2021).