

**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 AND SIX-MONTH PERIODS ENDED 30 JUNE 2021

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

**UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2021**

Table of contents	Page
Independent Auditor's Review Report on Interim Condensed Consolidated Financial Statements	1
Interim Condensed Consolidated Statement of Financial Position	2
Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	3
Interim Condensed Consolidated Statement of Changes in Equity	4
Interim Condensed Consolidated Statement of Cash Flows	5
Notes to the Interim Condensed Consolidated Financial Statements	6 - 16

**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 as "the Group") as at 30 June 2021, and the related interim condensed consolidated statement of profit or loss and other comprehensive income, for the three-month and six-month periods ended 30 June 2021, and the related interim condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair 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 as endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young



Abdullah Ali AlMakrami
Certified Public Accountant
License No. 476

23 Dhul-Hijjah 1442H
2 August 2021G

Jeddah



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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

(Expressed in Saudi Riyals unless otherwise stated)

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	1,080,476,291	1,092,922,022
Right-of-use assets	6	37,236,333	38,285,472
Intangible assets		567,320	889,807
TOTAL NON-CURRENT ASSETS		1,118,279,944	1,132,097,301
CURRENT ASSETS			
Inventories		156,790,359	167,165,681
Trade receivables		240,976,013	186,049,994
Prepayments and other receivables		19,079,129	13,234,702
Other current assets		19,452,966	33,350,966
Financial asset at fair value through profit or loss		5,593	5,581
Cash and cash equivalents		68,208,539	45,455,272
TOTAL CURRENT ASSETS		504,512,599	445,262,196
TOTAL ASSETS		1,622,792,543	1,577,359,497
EQUITY AND LIABILITIES			
EQUITY			
Share capital		500,000,000	500,000,000
Statutory reserve		92,318,706	86,237,989
Treasury shares		(6,816,812)	(6,816,812)
Retained earnings		227,062,470	172,571,815
TOTAL EQUITY		812,564,364	751,992,992
NON-CURRENT LIABILITIES			
Long-term borrowings	7	269,385,893	304,157,790
Lease liabilities	8	30,660,425	31,035,496
Other financial liability	9	40,337,669	39,923,049
Employee benefits		43,488,749	44,019,012
TOTAL NON-CURRENT LIABILITIES		383,872,736	419,135,347
CURRENT LIABILITIES			
Zakat payable	10	4,171,023	4,693,350
Long-term borrowings – current portion	7	174,602,213	192,222,731
Lease liabilities – current portion	8	10,166,280	8,954,390
Other financial liability – current portion	9	6,648,130	6,579,796
Derivative financial instruments		-	364,800
Short-term borrowings		130,089,287	86,296,606
Trade and other payables		93,809,514	100,510,940
Other current liabilities		6,868,996	6,608,545
TOTAL CURRENT LIABILITIES		426,355,443	406,231,158
TOTAL LIABILITIES		810,228,179	825,366,505
TOTAL EQUITY AND LIABILITIES		1,622,792,543	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.

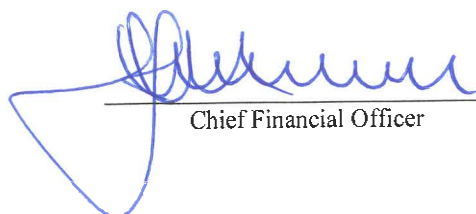
**MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)**

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

For the three-month and six-month periods ended 30 June 2021

(Expressed in Saudi Riyals unless otherwise stated)

		<i>Three-month period ended 30 June</i>		<i>Six-month period ended 30 June</i>	
	<i>Note</i>	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
Revenue		250,452,207	193,621,674	450,966,583	367,487,299
Cost of revenue		(167,162,581)	(148,849,243)	(319,665,820)	(287,101,689)
GROSS PROFIT		83,289,626	44,772,431	131,300,763	80,385,610
Selling and distribution expenses		(17,324,795)	(13,268,544)	(32,268,620)	(24,971,628)
General and administrative expenses		(15,918,437)	(13,382,086)	(29,673,008)	(27,185,050)
Impairment (losses)/reversals on financial assets		(705,173)	(320,395)	(1,993,002)	161,383
Fair value gain/(loss) on derivative financial instruments		-	69,064	364,800	(838,639)
Other income/(expenses), net		513,796	(1,079,277)	5,140,861	(1,048,023)
OPERATING PROFIT		49,855,017	16,791,193	72,871,794	26,503,653
Finance costs		(3,962,828)	(4,841,567)	(7,688,726)	(10,300,727)
PROFIT BEFORE ZAKAT		45,892,189	11,949,626	65,183,068	16,202,926
Zakat expense	10	(2,806,566)	(509,277)	(4,375,893)	(638,765)
PROFIT FOR THE PERIOD		43,085,623	11,440,349	60,807,175	15,564,161
Other comprehensive income					
<i>Items not to be reclassified to statement of profit or loss in subsequent periods:</i>					
Actuarial loss on re-measurement of employee benefit obligations		(235,803)	-	(235,803)	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		42,849,820	11,440,349	60,571,372	15,564,161
Earnings per share					
Basic and diluted, earnings per share attributable to ordinary equity holders of the Group (Saudi Riyals)	11	0.87	0.23	1.22	0.31



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.

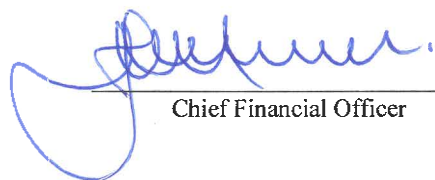
MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 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	-	-	-	15,564,161	15,564,161
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	15,564,161	15,564,161
Transfer to statutory reserve	-	1,556,416	-	(1,556,416)	-
Balance as at 30 June 2020 (Unaudited)	<u>500,000,000</u>	<u>85,776,835</u>	<u>(6,816,812)</u>	<u>167,982,353</u>	<u>746,942,376</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	-	-	-	60,807,175	60,807,175
Other comprehensive income for the period	-	-	-	(235,803)	(235,803)
Total comprehensive income for the period	-	-	-	60,571,372	60,571,372
Transfer to statutory reserve	-	6,080,717	-	(6,080,717)	-
Balance as at 30 June 2021 (Unaudited)	<u>500,000,000</u>	<u>92,318,706</u>	<u>(6,816,812)</u>	<u>227,062,470</u>	<u>812,564,364</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 six-month period ended 30 June 2021

(Expressed in Saudi Riyals unless otherwise stated)

	Note	<i>Six-month period ended 30 June</i>	
		2021	2020
OPERATING ACTIVITIES			
Profit before zakat		65,183,068	16,202,926
<i>Adjustments to reconcile profit before zakat to net cash flows:</i>			
Depreciation and amortization		51,042,345	52,767,588
Finance costs		7,688,726	10,300,727
(Gain) / loss on disposal of property and equipment		(2,464,272)	233,996
Allowance / (reversal) for impairment of trade receivables		1,993,002	(161,383)
Allowance for slow moving inventories		1,500,000	1,800,000
Provision against advances to suppliers and employees		505,950	-
Employee benefits provision		3,098,618	2,958,337
Fair value (gain)/ loss on derivative financial instruments		(364,800)	838,639
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)	(11,934)
Remeasurement loss on lease liabilities		-	522,531
		128,182,625	85,279,892
<i>Working capital adjustments:</i>			
Inventories		8,875,322	24,376,292
Trade receivables		(56,919,021)	(37,071,972)
Prepayments and other receivables		(5,844,427)	(115,770)
Other current assets		13,392,050	5,927,491
Trade and other payables		(6,604,009)	19,360,816
Other current liabilities		260,451	3,559,265
Cash from operations		81,342,991	101,316,014
Finance costs paid		(7,604,522)	(10,171,122)
Zakat paid	10	(4,898,220)	(138,501)
Employee benefits paid		(3,864,684)	(1,214,866)
Net cash flows from / (used in) operating activities		64,975,565	89,791,525
INVESTING ACTIVITIES			
Purchase of property and equipment		(34,359,366)	(33,258,000)
Proceeds from disposal of property and equipment		2,610,513	21,400
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
Net cash flows used in investing activities		(31,748,853)	(33,065,065)
FINANCING ACTIVITIES			
Net change in short-term borrowings		43,727,734	(53,007,913)
Proceeds from long-term borrowings		55,000,000	30,000,000
Repayments of long-term borrowings		(107,070,539)	(21,481,715)
Payment of principle portion of lease liabilities		(2,130,640)	(1,635,386)
Payment of principle portion of other financial liability		-	(16,635,528)
Net cash flows (used in) / from financing activities		(10,473,445)	(62,760,542)
DECREASE IN CASH AND CASH EQUIVALENTS		22,753,267	(6,034,082)
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		68,208,539	17,179,401

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 (continued)

For the three-month and six-month periods ended 30 June 2021

(Expressed in Saudi Riyals unless otherwise stated)

1 CORPORATE INFORMATION

Middle East Company for Manufacturing and Producing Paper (“MEPCO” or the “Company” or “Parent 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 30 June 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%
Roots Paper Manufacturing Company Limited (“Roots”)	Saudi Arabia	Production and sales of tissue paper rolls.	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 invested its paid-up share capital of the subsidiary and all transactions incurred during the period by Roots Paper Manufacturing Company have been reflected in these interim condensed consolidated financial statements for the period ended 30 June 2021.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The interim condensed consolidated financial statements for the six months period ended 30 June 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 Certified Public Accountants (“SOCPA”). The Group has prepared the interim condensed consolidated financial statements on the basis that it will continue to operate as a going concern. The Directors consider that there are no material uncertainties that may cast doubt significant doubt over this assumption. They have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and not less than 12 months from the end of the reporting period.

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).

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 and six-month periods ended 30 June 2021

(Expressed in Saudi Riyals unless otherwise stated)

2 BASIS OF PREPARATION (continued)

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.

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 2019, except for the adoption of new standards effective as of 1 January 2020. 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 2020, 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.

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 and six-month periods ended 30 June 2021

(Expressed in Saudi Riyals unless otherwise stated)

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 as well as tissue paper.
- Trading segment represents wholesale and retail sales of paper, carton and plastic waste.

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 and six-month periods ended 30 June 2021:

	<i>Manufacturing</i>	<i>Trading</i>	<i>Elimination</i>	<i>Total</i>
Results for the six-month period ended 30 June 2021 (Unaudited)				
Revenues	439,092,134	192,157,760	(180,283,311)	450,966,583
External revenues	439,092,134	11,874,449	-	450,966,583
Segment profit before zakat	66,071,666	12,798,599	(13,687,197)	65,183,068
Finance costs	7,015,356	673,370	-	7,688,726
Depreciation and amortization	44,960,083	6,082,262	-	51,042,345
Results for the three-month period ended 30 June 2021 (Unaudited)				
Revenues	245,110,854	101,632,906	(96,291,553)	250,452,207
External revenues	245,110,854	5,341,353	-	250,452,207
Segment profit before zakat	46,870,362	7,553,066	(8,531,239)	45,892,189
Finance costs	3,625,796	337,032	-	3,962,828
Depreciation and amortization	20,971,330	3,013,543	-	23,984,873
Results for the six-month period ended 30 June 2020 (Unaudited)				
Revenues	361,349,965	85,935,934	(79,798,600)	367,487,299
External revenues	361,349,965	6,137,334	-	367,487,299
Segment profit /(loss) before zakat	16,200,347	(14,526,776)	14,529,355	16,202,926
Finance costs	9,468,385	832,342	-	10,300,727
Depreciation and amortization	46,918,180	5,849,408	-	52,767,588

**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 and six-month periods ended 30 June 2021

(Expressed in Saudi Riyals unless otherwise stated)

4 SEGMENT INFORMATION (continued)

	<i>Manufacturing</i>	<i>Trading</i>	<i>Elimination</i>	<i>Total</i>
Results for the three-month period ended 30 June 2020 (Unaudited)				
Revenues	190,916,867	43,299,751	(40,594,944)	193,621,674
External revenues	190,916,867	2,704,807	-	193,621,674
Segment profit /(loss) before zakat	11,947,047	(10,562,905)	10,565,484	11,949,626
Finance costs	4,277,261	564,306	-	4,841,567
Depreciation and amortization	23,742,794	2,979,233	-	26,722,027
As at 30 June 2021 (Unaudited)				
Total assets	1,595,073,346	144,814,930	(117,095,733)	1,622,792,543
Total liabilities	765,439,764	95,070,919	(50,282,504)	810,228,179
As at 31 December 2020 (Audited)				
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 sells its final products in to local and foreign markets in Middle East, Africa, Asia and Europe. Export sales during the three-month and six-month periods ended 30 June 2021 amounted to SR 97.7 million and SR 183.7 million, respectively (three-month and six-month periods ended 30 June 2020: SR 79.5 million and SR 152.5 million, respectively). Local external sales in Kingdom of Saudi Arabia, during the three-month and six-month periods ended 30 June 2021 amounted to SR 152.7 million and SR 267.3 million, respectively (three-month and six-month periods ended 30 June 2020: SR 114.1 million and SR 214.9 million, respectively).

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 and six-month periods ended 30 June 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 fixtures</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	2,022,776,217
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
Six-month period ended 30 June 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	-	147,900	5,887,866	2,881,235	641,160	25,550,775	35,108,936
Transfers							
- Cost	-	-	23,599,301	7,778	-	(23,607,079)	-
- Accumulated depreciation	-	-	-	(333)	-	333	-
Disposals							
- Cost	-	(210,950)	(6,966,852)	(441,439)	(10,478,982)	-	(18,098,223)
- Accumulated depreciation	-	96,996	6,937,239	441,311	10,476,436	-	17,951,982
Reclass to intangible assets	-	-	-	-	-	(24,773)	(24,773)
Depreciation charge	-	(3,264,090)	(42,075,754)	(1,042,048)	(1,001,761)	-	(47,383,653)
Closing net book value as at 30 June 2021	169,704,302	122,166,387	669,258,037	6,762,537	7,658,593	104,926,435	1,080,476,291
At 30 June 2021							
Cost	169,704,302	188,963,960	1,519,067,981	24,095,031	33,004,781	104,926,435	2,039,762,490
Accumulated depreciation	-	(66,797,573)	(849,809,944)	(17,332,494)	(25,346,188)	-	(959,286,199)
Net book value (Unaudited)	169,704,302	122,166,387	669,258,037	6,762,537	7,658,593	104,926,435	1,080,476,291

- 5.1 During the six-month period ended 30 June 2021, finance costs amounting to SR 0.75 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 30 June 2021 includes costs incurred related to the ongoing projects for plant and machinery as well as construction of a tissue mill factory in King Abdullah Economic City, Rabigh under the wholly own subsidiary "Roots Paper Manufacturing Company". The ongoing projects are expected to be completed during the second quarter of 2022 and the tissue mill project is expected to be completed during first quarter 2023. Refer to note 13 for capital commitments.
- 5.3 All land, buildings and mobile cabinets, machinery, equipment, furniture and fixtures 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 and six-month periods ended 30 June 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)	36,129,030	2,156,442	38,285,472
Six-month period ended 30 June 2021			
Opening net book value	36,129,030	2,156,442	38,285,472
Additions	-	2,260,066	2,260,066
Depreciation charge	(2,618,064)	(691,141)	(3,309,205)
Closing net book value as at 30 June 2021	33,510,966	3,725,367	37,236,333
At 30 June 2021			
Cost	48,028,022	6,834,077	54,862,099
Accumulated depreciation	(14,517,056)	(3,108,710)	(17,625,766)
Net book value (Unaudited)	33,510,966	3,725,367	37,236,333

7 LONG-TERM BORROWINGS

	<i>30 June 2021 (Unaudited)</i>	<i>31 December 2020 (Audited)</i>
Saudi Industrial Development Fund ("SIDF")	76,548,829	106,962,548
Islamic banking facilities ("Tawarruq")	367,439,277	389,417,973
Long-term borrowings	443,988,106	496,380,521
Less: current portion shown under current liabilities	(174,602,213)	(192,222,731)
Long term borrowings shown under non-current liabilities	269,385,893	304,157,790

- (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 SR 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 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 2026.

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 is in compliance with all its related covenants as of 30 June 2021.

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 and six-month periods ended 30 June 2021

(Expressed in Saudi Riyals unless otherwise stated)

8 LEASE LIABILITIES

Movement in lease liabilities is summarized as follows:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
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	707,393	1,610,737
Payments	(2,130,640)	(7,327,785)
At the end of the period/year	40,826,705	39,989,886

The scheduled maturities of the lease liabilities as at period ended 30 June 2021 are as follows:

	Principal amount	Interest	Net lease liabilities
Current portion	11,447,656	(1,281,376)	10,166,280
Non-current portion	34,255,084	(3,594,659)	30,660,425
	45,702,740	(4,876,035)	40,826,705

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-negotiated 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 31 July 2027.

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Total liability	46,985,799	46,502,845
Less: current portion shown under current liabilities	(6,648,130)	(6,579,796)
Long term liability shown under non-current liabilities	40,337,669	39,923,049

The scheduled maturities of the liability related to land purchase arrangements as at period ended 30 June 2021 are as follows:

	Gross amount	Discounting impact	Net liability
Current portion	7,485,988	(837,858)	6,648,130
Non-current portion	42,420,596	(2,082,927)	40,337,669
	49,906,584	(2,920,785)	46,985,799

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 and six-month periods ended 30 June 2021

(Expressed in Saudi Riyals unless otherwise stated)

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
At the beginning of the period/year	4,693,350	1,437,193
Provisions		
- Provision for the current period/year	4,171,023	4,693,350
- Adjustment related to prior years	204,870	(176,587)
Payments	(4,898,220)	(1,260,606)
At the end of the period/year	4,171,023	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 Zakat, Tax and Customs Authority ("ZATCA") 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. The matter is currently escalated to the General Secretariat for Tax Committees ("GSTC") to be heard at the Tax Violation and Disputes Resolution Committee ("TVDR")

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

During December 2020, the ZATCA 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 ZATCA 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 ZATCA 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 2020 are filed with the ZATCA and unrestricted zakat certificates have been obtained till 30 April 2022.

During July 2021, WASCO received an assessment for the year ended 31 December 2016 and 2017 claiming additional Zakat amounting to SR 1.39 million and SR 169K, respectively. WASCO is in the process of assessing the additional liability claim and submitting its objection against the claim before the due date.

The zakat declarations of WASCO for the years 2009 to 2020 are currently under review by the ZATCA and unrestricted zakat certificates have been obtained till 30 April 2022.

The zakat declarations of SACO for the years 2009 to 2020 are currently under review by the ZATCA and unrestricted zakat certificates have been obtained till 30 April 2022.

**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 and six-month periods ended 30 June 2021

(Expressed in Saudi Riyals unless otherwise stated)

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>Six-month period ended</i>	
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net profit attributable to owners of the Company	43,085,623	11,440,349	60,807,175	15,564,161
Weighted average number of shares	49,700,000	49,700,000	49,700,000	49,700,000
Basic and diluted earnings per share (SR per share)	0.87	0.23	1.22	0.31

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.

**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 and six-month periods ended 30 June 2021

(Expressed in Saudi Riyals unless otherwise stated)

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>30 June 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 six-month periods ended 30 June 2021 and 30 June 2020, there were no movements between the levels.

13 CONTINGENCIES AND COMMITMENTS

- (a) As at 30 June 2021, the Group had outstanding letters of credit amounting to SR 0.74 million (31 December 2020: SR 0.68 million) and letters of guarantee amounting to SR 3.92 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 30 June 2021 was approximately SR 135.6 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>Six-month period ended</i>	
	<i>30 June 2021 (Unaudited)</i>	<i>30 June 2020 (Unaudited)</i>	<i>30 June 2021 (Unaudited)</i>	<i>30 June 2020 (Unaudited)</i>
Short term benefits	4,262,053	2,866,179	7,333,398	5,635,785
Post-employment benefits	54,200	43,583	113,400	113,400
Termination benefits	195,689	112,937	324,603	271,174
	<u>4,511,942</u>	<u>3,022,699</u>	<u>7,771,401</u>	<u>6,020,359</u>

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

**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 and six-month periods ended 30 June 2021

(Expressed in Saudi Riyals unless otherwise stated)

14 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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>Six-month period ended</i>	
			<i>30 June 2021</i>	<i>30 June 2020</i>	<i>30 June 2021</i>	<i>30 June 2020</i>
			<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Directors	Directors' remuneration	Directors	659,260	629,653	1,318,755	1,263,928
Arabian Maize Company for Industry (formerly "Al Masirah International Industrial Investments Company")	Purchase of materials	Company of chairman board of directors	3,518,227	-	7,983,113	-

14.3 Related party balances

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

	<i>30 June 2021</i>	<i>31 December 2020</i>
Accrued directors' remuneration	1,227,282	-
Advances to key management personnel	714,268	419,980
Arabian Maize Company for Industry	(4,134,138)	(1,674,806)

15 AUTHORISATION OF FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on 23 Dhul-Hijjah 1442H (corresponding to 2 August 2021G).