

**MIDDLE EAST COMPANY FOR MANUFACTURING
AND PRODUCING PAPER**
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2019
AND REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2019**

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Report on review of condensed consolidated interim financial information

To the Shareholders of Middle East Company for Manufacturing and Producing Paper:
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Middle East Company for Manufacturing and Producing Paper (the "Company") and its subsidiaries (collectively referred to as the "Group") as of June 30, 2019 and the related condensed consolidated statement of comprehensive income for the three-month and six-month periods then ended and the condensed consolidated statements of changes in equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information 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 this condensed consolidated interim financial information 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", as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information 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, as 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 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

Mufaddal A. Ali
License Number 447

August 1, 2019



MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
Condensed consolidated interim statement of financial position
As at June 30, 2019
(Expressed in Saudi Riyals unless otherwise stated)

	Note	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	5	1,038,957,893	1,040,868,466
Right-of-use assets	6	46,736,742	-
Intangible assets		2,799,479	3,580,821
Derivative financial instruments		192,645	2,064,063
Total non-current assets		1,088,686,759	1,046,513,350
Current assets			
Inventories		197,892,925	213,933,195
Trade receivables		206,868,329	156,877,366
Prepayments and other receivables		20,851,340	15,046,939
Other current assets		55,731,355	43,948,837
Financial asset at fair value through profit or loss		24,737	524,256
Cash and cash equivalents		23,101,509	28,842,546
Total current assets		504,470,195	459,173,139
Total assets		1,593,156,954	1,505,686,489
Equity and liabilities			
Equity			
Share capital		500,000,000	500,000,000
Statutory reserve		83,783,115	83,607,622
Treasury shares		(6,816,812)	(6,816,812)
Retained earnings		151,101,690	174,522,254
Net equity		728,067,993	751,313,064
Liabilities			
Non-current liabilities			
Long-term borrowings	7	421,257,092	360,361,646
Lease liabilities	8	41,034,152	-
Employees' end of service benefits		41,345,637	39,912,063
Total non-current liabilities		503,636,881	400,273,709
Current liabilities			
Zakat payable	9	1,668,429	4,020,197
Current portion of long-term borrowings	7	117,920,918	128,352,211
Current portion of lease liabilities	8	6,267,514	-
Short-term borrowings		139,662,409	128,301,031
Trade and other payables		91,686,869	90,097,948
Other current liabilities		4,245,941	3,328,329
Total current liabilities		361,452,080	354,099,716
Total liabilities		865,088,961	754,373,425
Total equity and liabilities		1,593,156,954	1,505,686,489

The accompanying notes from 1 to 15 form an integral part of this condensed consolidated interim financial information.


Chief Financial Officer


Chief Executive Officer


Authorized Member of Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)

Condensed consolidated interim statement of comprehensive income

For the three-month and six-month periods ended June 30, 2019

(Expressed in Saudi Riyals unless otherwise stated)

	Note	Three-month period ended June 30,		Six-month period ended June 30,	
		2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Sales		176,086,332	218,568,337	357,930,143	443,579,295
Cost of sales		(142,972,885)	(155,450,561)	(285,491,860)	(318,357,278)
Gross profit		33,113,447	63,117,776	72,438,283	125,222,017
Selling and distribution expenses		(13,349,564)	(11,280,922)	(25,167,462)	(21,255,815)
General and administrative expenses		(16,600,109)	(15,961,872)	(30,933,514)	(32,750,011)
Impairment losses (reversals) on financial assets		(765,861)	702,207	(1,098,533)	(197,793)
Fair value (loss) gain on derivative financial instruments		(1,073,022)	600,656	(1,871,418)	1,185,328
Other income (expenses), net		2,167,899	(683,013)	2,438,027	(622,495)
Operating profit		3,492,790	36,494,832	15,805,383	71,581,231
Finance costs		(6,543,443)	(6,426,683)	(12,909,429)	(12,730,949)
(Loss) profit before zakat		(3,050,653)	30,068,149	2,895,954	58,850,282
Zakat expense		(977,988)	(1,150,758)	(1,141,025)	(1,856,801)
(Loss) profit for the period		(4,028,641)	28,917,391	1,754,929	56,993,481
<i>Other comprehensive income items that will not be reclassified to profit or loss:</i>					
Actuarial gain on re-measurement of employee benefit obligations		-	-	-	-
Total comprehensive (loss) income for the period		(4,028,641)	28,917,391	1,754,929	56,993,481
(Loss) earnings per share					
Basic and diluted (loss) earnings per share	10	(0.08)	0.58	0.04	1.14

The accompanying notes from 1 to 15 form an integral part of this condensed consolidated interim financial information.


Chief Financial Officer


Chief Executive Officer


Authorized Member of Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
A Saudi Joint Stock Company)


Condensed consolidated interim statement of changes in equity

For the six-month period ended June 30, 2019

(Expressed in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Treasury shares	Retained earnings	Total
Balance as at January 1, 2019 (Audited)	500,000,000	83,607,622	(6,816,812)	174,522,254	751,313,064
Profit for the period	-	-	-	1,754,929	1,754,929
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	1,754,929	1,754,929
Transfer to statutory reserve	-	175,493	-	(175,493)	-
Dividends (Note 14)	-	-	-	(25,000,000)	(25,000,000)
Balance as at June 30, 2019 (Unaudited)	500,000,000	83,783,115	(6,816,812)	151,101,690	728,067,993
Balance as at January 1, 2018 (Audited)	500,000,000	73,663,228	-	148,716,962	722,380,190
Profit for the period	-	-	-	56,993,481	56,993,481
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	56,993,481	56,993,481
Transfer to statutory reserve	-	5,699,348	-	(5,699,348)	-
Purchase of treasury shares	-	-	(6,816,812)	-	(6,816,812)
Dividends (Note 14)	-	-	-	(37,500,000)	(37,500,000)
Balance as at June 30, 2018 (Unaudited)	500,000,000	79,362,576	(6,816,812)	162,511,095	735,056,859

The accompanying notes from 1 to 15 form an integral part of this condensed consolidated interim financial information.


Chief Financial Officer


Chief Executive Officer


Authorized Member of Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER

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Condensed consolidated interim statement of cash flows

For the six-month period ended June 30, 2019

(Expressed in Saudi Riyals unless otherwise stated)

	Note	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Cash flows from operating activities			
Profit before zakat		2,895,954	58,850,282
Adjustments for:			
Depreciation and amortization		47,701,162	43,123,070
Finance costs		12,909,429	12,730,949
Gain on sale of property and equipment		(1,837,569)	(3,499)
Allowance for impairment of trade receivables		1,098,532	197,793
Allowance for slow moving inventories		1,800,000	1,800,000
Employees' end of service benefits provision		3,113,177	3,067,272
Fair value loss on derivative financial instruments		1,871,418	(1,185,328)
Gain on disposal of financial asset at fair value through profit or loss		(489,837)	-
Fair value gain on financial asset at fair value through profit or loss		(481)	(5,062)
Changes in operating assets and liabilities:			
Inventories		14,240,270	8,848,027
Trade receivables		(51,089,495)	(53,872,633)
Prepayments and other receivables		(6,729,520)	(3,163,823)
Other current assets		(11,782,518)	5,638,522
Trade and other payables		1,664,812	24,135,456
Other current liabilities		1,261,457	45,513
Cash generated from operations		<u>16,626,791</u>	<u>100,206,539</u>
Finance costs paid		(14,182,863)	(10,608,491)
Zakat paid		(3,492,793)	(1,759,375)
Employees' end of service benefit paid		(1,679,603)	(874,567)
Net cash (outflow) inflow from operating activities		<u>(2,728,468)</u>	<u>86,964,106</u>
Cash flows from investing activities			
Acquisition of property and equipment		(40,571,583)	(23,463,656)
Proceeds from sale of property and equipment		2,253,657	3,500
Acquisition of financial asset at fair value through profit or loss		(2,369,253)	-
Proceeds from sale of investments at fair value through profit or loss		3,359,090	-
Net cash outflow from investing activities		<u>(37,328,089)</u>	<u>(23,460,156)</u>
Cash flows from financing activities			
Net change in short-term borrowings		11,277,568	24,692,111
Proceeds from long-term borrowings		100,000,000	-
Repayments of long-term borrowings		(48,952,381)	(62,583,718)
Principal elements of lease payments	8	(3,009,667)	-
Purchase of treasury shares		-	(6,816,812)
Dividends paid	14	(25,000,000)	(37,500,000)
Net cash inflow (outflow) from financing activities		<u>34,315,520</u>	<u>(82,208,419)</u>
Net change in cash and cash equivalents		<u>(5,741,037)</u>	<u>(18,704,469)</u>
Cash and cash equivalents at beginning of period		<u>28,842,546</u>	<u>31,015,660</u>
Cash and cash equivalents at end of period		<u>23,101,509</u>	<u>12,311,191</u>

The accompanying notes from 1 to 15 form an integral part of this condensed consolidated interim financial information.


Chief Financial Officer


Chief Executive Officer


Authorized Member of Board

**MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial information

For the three-month and six-month periods ended June 30, 2019

(Expressed in Saudi Riyals unless otherwise stated)

1 General 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 Rajab 3, 1421H, (September 30, 2000). During 2012, the legal status of the Company converted from a Limited Liability Company to 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 Safar 14, 1433H (January 8, 2012). The Company’s application for its initial public offering was accepted by the Capital Market Authority (CMA) on Jumad-ul-Awal 25, 1436H (March 16, 2015). The Company was converted to Saudi Joint Stock Company on Rajab 14, 1436H (May 3, 2015).

At June 30, 2019 the Company had investments in the following subsidiaries (collectively referred to as “Group”).

Subsidiary name	Country of incorporation	Principal business activity	Effective ownership interest
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 of the date of the issuance of the condensed consolidated interim financial information.

2 Basis of preparation

2.1 Statement of compliance

The condensed consolidated interim financial information of the Company has been prepared in compliance with International Accounting Standard 34 - Interim Financial Reporting (IAS 34) as endorsed by Saudi Organization for Certified Public Accountants (SOCPA) in the Kingdom of Saudi Arabia as well as other standards and pronouncements issued by SOCPA.

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2018. IAS 34 states that the condensed interim financial information is intended to provide an update on the latest complete set of annual financial statements. Hence, IAS 34 requires less disclosure in interim financial information than IFRS requires in annual financial statements.

2.2 Accounting convention / Basis of measurement

The condensed consolidated interim financial information has been prepared on a historical cost basis except for derivative financial instruments and investment at fair value through profit or loss which are measured at fair value, the defined benefit obligation which is recognised at the present value of future obligations using the Projected Unit Credit Method and the lease liabilities measured at present value of future rental payments. This condensed consolidated interim financial information is presented in Saudi Arabian Riyals (Saudi Riyals).

2.3 New and amended standards adopted by the Group

The Group has adopted International Financial Reporting Standard 16 *Leases* (IFRS 16) from January 1, 2019. This note explains the impact of the adoption of IFRS 16 on the Group’s financial statements and discloses the new accounting policies that have been applied from January 1, 2019 in Note 3 below.

The Group has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the year-ended December 31, 2018, as permitted under the specific transitional provisions in IFRS 16. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet at January 1, 2019.

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(Expressed in Saudi Riyals unless otherwise stated)

a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities are now measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of January 1, 2019. The weighted average Group's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.83%.

	January 1, 2019 (Unaudited)
Operating lease commitments as at January 1, 2019	61,820,358
Discounting impact using the lessee's incremental borrowing rate at January 1, 2019 (date of initial application)	(9,884,100)
Less: short-term leases recognised on a straight-line basis as expense	(1,954,743)
Lease liability recognised as at January 1, 2019	49,981,515
Classified as:	
Current lease liabilities	6,478,666
Non-current lease liabilities	43,502,849
	49,981,515

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at January 1, 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at January 1, 2019.

	June 30, 2019 (Unaudited)	January 1, 2019 (Unaudited)
The recognised right-of-use assets relate to the following types of assets:		
Land	44,441,709	47,168,541
Buildings	2,295,033	3,307,027
Total right-of-use assets	46,736,742	50,475,568

The change in accounting policy affected the following items in the statement of financial position on January 1, 2019:

- right-of-use assets – increase by Saudi Riyals 50.48 million
- prepayments – decrease by Saudi Riyals 0.92 million
- lease liabilities – increase by Saudi Riyals 49.98 million
- other liabilities – decrease by Saudi Riyals 0.34 million

There is no net impact on retained earnings on January 1, 2019 as a consequence of change in accounting policy.

b) Impact on segment disclosures and earnings per share

Segment assets and segment liabilities for June 30, 2019 are increased as a result of the adoption of IFRS 16. The following segments were affected by the change in policy:

	Manufacturing	Trading	Eliminations	Total
For the six-month period ended June 30, 2019				
Impact on assets	814,457	45,922,285	-	46,736,742
Impact on liabilities	712,526	46,589,140	-	47,301,666

Earnings per share increased by Saudi Riyal 0.0020 per share and Saudi Riyal 0.0029 per share for the three-month and six-month periods ended June 30, 2019, respectively as a result of the adoption of IFRS 16.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

2.4 Standards and interpretations issued but not yet applied by the Group

There are no other relevant standards, amendments or interpretations issued by IFRS Interpretation Committee that are not yet effective that would be expected to have a material impact on the Group's consolidated financial information.

2.5 Use of judgments and estimates

Preparation of the Group's condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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. The Group based its assumptions and estimates on parameters available when the condensed consolidated interim financial information was prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

3 Significant accounting policies

The accounting policies adopted by the Group for the preparation of the condensed consolidated interim financial information are consistent with those followed in preparation of the Group's annual consolidated financial statements for the year ended December 31, 2018, except for accounting policies related to the new standard adopted by the Group effective as of January 1, 2019 (see Note 2.3).

3.1 Leases

The Group leases various employees' accommodation, warehouses buildings and landfills. Rental contracts are typically made for fixed periods of 1 to 15 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year-end, above leases were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on present value. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

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(Expressed in Saudi Riyals unless otherwise stated)

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

4 Operating segments

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.

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:

	Manufacturing	Trading	Elimination	Total
Operating segment results for the six-month period ended June 30, 2019 (Unaudited)				
Revenues	346,191,317	133,022,787	(121,283,961)	357,930,143
External revenues	346,191,317	11,738,826	-	357,930,143
Segment profit before zakat	2,769,696	6,431,479	(6,305,221)	2,895,954
Financial charges	12,588,980	320,449	-	12,909,429
Depreciation and amortization	40,205,135	7,496,027	-	47,701,162
Operating segment results for the three-month period ended June 30, 2019 (Unaudited)				
Revenues	169,920,593	62,051,371	(55,885,632)	176,086,332
External revenues	169,920,593	6,165,739	-	176,086,332
Segment (loss) profit before zakat	(3,055,295)	1,529,787	(1,525,145)	(3,050,653)
Financial charges	6,391,029	152,414	-	6,543,443
Depreciation and amortization	20,194,221	3,611,763	-	23,805,984
Operating segment results for the six-month period ended June 30, 2018 (Unaudited)				
Revenues	431,559,395	136,916,603	(124,896,703)	443,579,295
External revenues	431,559,395	12,019,900	-	443,579,295
Segment profit (loss) before zakat	58,850,282	(9,026,127)	9,026,127	58,850,282
Financial charges	12,730,949	-	-	12,730,949
Depreciation and amortization	37,818,894	5,304,176	-	43,123,070
Operating segment results for the three-month period ended June 30, 2018 (Unaudited)				
Revenues	212,340,536	64,568,046	(58,340,245)	218,568,337
External revenues	212,340,536	6,227,801	-	218,568,337
Segment profit (loss) before zakat	30,068,149	(3,283,448)	3,283,448	30,068,149
Financial charges	6,426,683	-	-	6,426,683
Depreciation and amortization	18,935,966	2,629,110	-	21,565,076

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(A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial information

For the three-month and six-month periods ended June 30, 2019

(Expressed in Saudi Riyals unless otherwise stated)

	Manufacturing	Trading	Elimination	Total
As of June 30, 2019 (Unaudited)				
Total assets	1,510,170,945	162,607,780	(79,621,771)	1,593,156,954
Total liabilities	782,102,952	102,397,821	(19,411,812)	865,088,961
As of December 31, 2018 (Audited)				
Total assets	1,468,929,782	113,672,108	(76,915,401)	1,505,686,489
Total liabilities	717,616,718	59,767,370	(23,010,663)	754,373,425

The Group makes sales in the local market and foreign markets in Middle East, Africa, Asia and Europe. Export sales during the three-month and six-month periods ended June 30, 2019 amounted to Saudi Riyals 105.8 million and Saudi Riyals 187.4 million, respectively (three-month and six-month periods ended June 30, 2018: Saudi Riyals 91.2 million and Saudi Riyals 182.2 million, respectively). Local external sales in Saudi Arabia, during three-month and the six-month periods ended June 30, 2019 amounted to Saudi Riyals 70.2 million and Saudi Riyals 170.5 million, respectively (three-month and six-month periods ended June 30, 2018: Saudi Riyals 127.4 million and Saudi Riyals 261.4 million, respectively).

5 Property, plant and equipment

	Land	Buildings and mobile cabinets	Machinery and equipment	Furniture and fixtures	Motor vehicles	Capital work-in-progress	Total
At January 1, 2019							
Cost	98,020,400	180,397,142	1,416,686,116	28,856,911	44,519,616	51,729,911	1,820,210,096
Accumulated depreciation	-	(52,430,375)	(664,616,814)	(25,650,882)	(36,643,559)	-	(779,341,630)
Net book value	98,020,400	127,966,767	752,069,302	3,206,029	7,876,057	51,729,911	1,040,868,466
Six-month period ended June 30, 2019							
Opening net book value	98,020,400	127,966,767	752,069,302	3,206,029	7,876,057	51,729,911	1,040,868,466
Additions	-	100,860	11,184,094	644,260	2,077,840	27,679,455	41,686,509
Transfers	-	-	4,574,917	-	-	(4,574,917)	-
Disposal:							
- Cost	-	-	(2,325,086)	-	-	-	(2,325,086)
- Accumulated depreciation	-	-	1,908,998	-	-	-	1,908,998
Depreciation charge	-	(2,910,570)	(38,248,992)	(683,978)	(1,337,454)	-	(43,180,994)
Closing net book value	98,020,400	125,157,057	729,163,233	3,166,311	8,616,443	74,834,449	1,038,957,893
At June 30, 2019							
Cost	98,020,400	180,498,002	1,430,120,041	29,501,171	46,597,456	74,834,449	1,859,571,519
Accumulated depreciation	-	(55,340,945)	(700,956,808)	(26,334,860)	(37,981,013)	-	(820,613,626)
Net book value	98,020,400	125,157,057	729,163,233	3,166,311	8,616,443	74,834,449	1,038,957,893

During the six month period ended June 30, 2019, finance costs amounting to Saudi Riyals 1.11 million were capitalized as part of property, plant and equipment (2018: Saudi Riyals 0.21 million).

Capital work-in-progress as of June 30, 2019 includes costs incurred related to the ongoing projects for plant and machinery. The projects are expected to complete during second quarter of 2020. Also see Note 12 for capital commitments.

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 (see Note 7).

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6 Right of use assets

	Leased land	Buildings	Total
At January 1, 2019			
Cost (Note 2)	47,168,541	3,307,027	50,475,568
Accumulated depreciation	-	-	-
Net book value	47,168,541	3,307,027	50,475,568
Six-month period ended June 30, 2019			
Opening net book value	47,168,541	3,307,027	50,475,568
Depreciation charge	(2,726,832)	(1,011,994)	(3,738,826)
Closing net book value	44,441,709	2,295,033	46,736,742
At June 30, 2019			
Cost (Note 2)	47,168,541	3,307,027	50,475,568
Accumulated depreciation	(2,726,832)	(1,011,994)	(3,738,826)
Net book value	44,441,709	2,295,033	46,736,742

7 Long-term borrowings

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Saudi Industrial Development Fund (SIDF)	88,948,580	106,379,698
Islamic banking facilities (Tawarruq)	450,229,430	382,334,159
Long-term borrowings	539,178,010	488,713,857
Less: current portion shown under current liabilities	(117,920,918)	(128,352,211)
Long term borrowings shown under non-current liabilities	421,257,092	360,361,646

- (a) The Company signed a loan agreement with SIDF amounting to Saudi Riyals 255 million in 2012 to partially finance the construction of manufacturing lines within the Company's production facility. This loan was fully utilized as of December 31, 2015. The loan was fully repaid during 2018.

During the year 2013, the Company signed another loan agreement with SIDF amounting to Saudi Riyals 124.7 million to finance the construction of manufacturing facilities. This loan was also fully utilized as of December 31, 2017. The loan is repayable in unequal semi-annual instalments up to March 2024.

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 Saudi Arabia 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 March 2024.

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.

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8 Lease liabilities

Movement in lease liabilities is summarized as follows:

	June 30, 2019 (Unaudited)
At January 1, 2019 (Note 2)	49,981,515
Payments made	(3,009,667)
Interest charged	329,818
At June 30, 2019	<u>47,301,666</u>

The scheduled maturities of the lease liabilities as of period ended June 30, 2019 are as follows:

	Principal amount	Interest	Net lease liabilities
Current portion	7,449,150	(1,181,636)	6,267,514
Non-current portion	49,378,553	(8,344,401)	41,034,152
	<u>56,827,703</u>	<u>(9,526,037)</u>	<u>47,301,666</u>

9 Zakat

9.1 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.

9.2 Provision for zakat

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
At the beginning of the period / year	4,020,197	3,006,659
Provisions		
- Provision for the current period / year	1,668,429	4,020,197
- Adjustment related to prior years	(527,404)	(1,247,284)
Payments	(3,492,793)	(1,759,375)
At the end of the period / year	<u>1,668,429</u>	<u>4,020,197</u>

9.3 Status of final assessments

The zakat assessment of the Group is finalized till December 31, 2008.

During 2016 the Company received additional zakat assessments amounting Saudi Riyals 16.54 million for the years 2009 to 2012. The Company has settled an amount of Saudi Riyals 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 claim amount to Saudi Riyals 6.83 million. The Company has settled Saudi Riyal 1 million and submitted the objection against the remaining revised assessment. Management believes that the ultimate outcome of this matter will not result in any material additional liability to the Company. The zakat declarations of the Company for the years 2013 to 2018 are filed with the GAZT and unrestricted zakat certificates have been obtained.

The zakat declarations of WASCO and SACO for the years 2008 to 2018 are currently under review by the GAZT.

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10 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.

	Three-month period ended June 30,		Six-month period ended June 30,	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Net (loss) profit for the period	(4,028,641)	28,917,391	1,754,929	56,993,481
Weighted average number of shares	49,700,000	49,873,103	49,700,000	49,936,201
Basic and diluted (losses) earnings per share	(0.08)	0.58	0.04	1.14

11 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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Level 2		
Derivative financial instruments	192,645	2,064,063
Investment at fair value through profit or loss	24,737	524,256

During the three-month and six-month periods ended June 30, 2019 and 2018, there were no movements between the levels.

12 Contingencies and commitments

- At June 30, 2019, the Group had outstanding letters of credit amounting to Saudi Riyals 11.36 million (December 31, 2018: Saudi Riyals 11.51 million) and letters of guarantee amounting to Saudi Riyals 2.62 million (December 31, 2018: Saudi Riyals 1.62 million) that were issued in the normal course of the business.
- The capital expenditure contracted by the Group but not incurred till June 30, 2019 was approximately Saudi Riyals 55.12 (December 31, 2018: Saudi Riyals 45.14 million).

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13 Related party transactions

13.1 Transactions with key management personnel

	June 30, 2019	June 30, 2018
	(Unaudited)	(Unaudited)
Short-term benefits	5,523,642	6,095,296
Post-employment benefits	139,378	138,920
Termination benefits	852,591	280,637
	6,515,611	6,514,853

13.2 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:

Related party	Description of transaction	Relationship	June 30, 2019	June 30, 2018
			(Unaudited)	(Unaudited)
MASDAR Building Materials	Purchase of materials / services	Subsidiary of a significant Shareholder	-	15,330
Directors	Directors' remuneration	Directors	1,597,546	1,326,474

13.3 Related party balances

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

	June 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Accrued directors remuneration	1,443,573	258,583
Advances to key management personnel	1,683,920	1,194,089

14 Dividends

During March 2019, the Company has distributed a dividend based on General Assembly authorization to the Board of Directors for the second half of the financial year ended December 31, 2018 of Saudi Riyals 0.50 per share (2018: Saudi Riyals 0.75 per share) aggregating to Saudi Riyals 25 million (2018: Saudi Riyals 37.5 million). The dividend was paid in March 2019.

15 Authorization of financial information

This condensed consolidated interim financial information was authorized for issue by the Company's Board of Directors on August 1, 2019.