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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
AND INDEPENDENT AUDITORS' REPORT

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

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INDEPENDENT AUDITORS' REPORT February 22, 2016

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

Scope of Audit

We have audited the accompanying consolidated balance sheet of Middle East Company for Manufacturing and Producing Paper (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2015 and the consolidated statements of income, cash flows and changes in equity for the year then ended, and the notes from 1 to 24 which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2015 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and

- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of consolidated financial statements.

PricewaterhouseCoopers

By:__________________
Ali A. Alotaibi
License Number 379

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
PRICE WATER HOUSE COOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
Consolidated balance sheet
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31, 2015	2014
Assets			
Current assets			
Cash and cash equivalents	4	**30,005,552**	37,706,350
Accounts receivable	5	**178,823,093**	197,699,237
Inventories	6	**199,298,861**	136,548,289
Prepayments and other assets	7	**101,211,677**	94,097,916
Due from a related party	8	**5,713,244**	6,749,942
		515,052,427	472,801,734
Non-current assets			
Derivative financial instrument	9	**83,682**	-
Intangible assets	10	**6,335,584**	2,573,449
Property, plant and equipment	11	**1,071,980,001**	1,026,801,051
		1,078,399,267	1,029,374,500
Total assets		**1,593,451,694**	1,502,176,234
Liabilities			
Current liabilities			
Short-term borrowings	12	**209,068,159**	328,070,100
Current maturity of long-term borrowings	13	**190,962,422**	153,924,111
Notes payable		**2,741,210**	2,622,623
Accounts payable		**46,818,871**	40,385,945
Due to related parties	8	**326,165**	985,639
Accrued and other liabilities	14	**31,637,443**	28,369,092
Zakat payable	15	**1,769,856**	2,915,234
		483,324,126	557,272,744
Non-current liabilities			
Long-term borrowings	13	**427,680,086**	320,546,355
Employee termination benefits	16	**24,442,833**	21,470,186
		452,122,919	342,016,541
Total liabilities		**935,447,045**	899,289,285
Equity			
Equity attributable to the shareholders of the Company:			
Share capital	17	**500,000,000**	500,000,000
Statutory reserve	18	**57,359,377**	51,847,607
Retained earnings		**100,645,272**	51,039,342
Total equity		**658,004,649**	602,886,949
Total liabilities and equity		**1,593,451,694**	1,502,176,234
Contingencies and commitments	24		

The notes on pages 7 to 19 form an integral part of these consolidated financial statements.

Chief Executive Officer	Chief Financial Officer	Authorized Member of the Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
Consolidated income statement
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31, 2015	2014
Sales		**681,170,062**	826,427,457
Cost of sales		**(508,313,973)**	(591,714,761)
Gross profit		**172,856,089**	234,712,696
Operating expenses			
Selling and marketing	19	**(40,741,153)**	(38,852,201)
General and administrative	20	**(50,249,575)**	(53,872,894)
Income from operations		**81,865,361**	141,987,601
Other income (expenses)			
Financial charges	12,13	**(21,872,348)**	(24,756,781)
Foreign currency exchange gain (loss)		**172,256**	(199,919)
Fair value gain on derivative financial instrument		**83,682**	-
Other, net		**(3,440,969)**	(3,371,711)
Income before zakat		**56,807,982**	113,659,190
Zakat	15	**(1,690,282)**	(2,320,112)
Net income for the year		**55,117,700**	111,339,078
Earnings per share:	21		
Income from operations		**1.64**	2.84
Net income for the year		**1.10**	2.23
Weighted average number of shares outstanding		**50,000,000**	50,000,000

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Chief Executive Officer

Chief Financial Officer

Authorized Member of the Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
Consolidated cash flow statement
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31, 2015	2014
Cash flows from operating activities			
Income for the year before zakat		**56,807,982**	113,659,190
Adjustments for non-cash items			
Depreciation and amortization	10,11	**100,546,032**	87,922,157
Financial charges		**21,872,348**	24,756,781
Gain on sale of property and equipment		**(188,332)**	(196,968)
(Reversal) / allowance for doubtful accounts receivable	5	**(1,540,243)**	2,750,000
Allowance for inventory obsolescence	6	**2,442,550**	2,399,774
Employee termination benefits provided	16	**4,503,572**	6,005,980
Fair value gain on derivative financial instrument		**(83,682)**	-
Changes in working capital			
Accounts receivable		**20,416,387**	(5,046,218)
Inventories		**(65,193,122)**	(4,027,196)
Prepayments and other assets		**(7,113,761)**	(1,436,545)
Due from a related party		**1,036,698**	51,955,175
Accounts payable		**6,432,926**	13,092,632
Due to related parties		**(659,474)**	348,749
Accrued and other liabilities		**856,380**	5,038,794
		140,136,261	297,222,305
Zakat paid	15	**(2,835,660)**	(1,778,819)
Financial charges paid		**(23,521,205)**	(30,243,220)
Employee termination benefits paid	16	**(1,530,925)**	(733,453)
Net cash generated from operating activities		**112,248,471**	264,466,813
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	10,11	**(147,926,753)**	(179,128,719)
Proceeds from sale of property, plant and equipment		**341,520**	993,535
Net cash utilized in investing activities		**(147,585,233)**	(178,135,184)
Cash flows from financing activities			
Net change in short-term borrowings and notes payable		**(118,883,354)**	100,821,011
Proceeds from long-term borrowings		**301,561,000**	22,750,000
Repayment of long-term borrowings		**(155,041,682)**	(165,166,664)
Dividend paid		**-**	(41,000,000)
Net cash provided by (utilized in) financing activities		**27,635,964**	(82,595,653)
Net change in cash and cash equivalents		**(7,700,798)**	3,735,976
Cash and cash equivalents at beginning of year		**37,706,350**	33,970,374
Cash and cash equivalents at end of year	4	**30,005,552**	37,706,350
Supplementary information for non-cash transactions			
Financial charges capitalized in property, plant and equipment		**1,713,552**	204,800
Increase in share capital by transfer from retained earnings		**-**	100,000,000
Property, plant and equipment transferred to Higher Institute for Paper & Industrial Technologies adjusted against prepayments and other assets balance		**-**	6,853,732

The notes on pages 7 to 19 form an integral part of these consolidated financial statements.

Chief Executive Officer

Chief Financial Officer

Authorized Member of the Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
Consolidated statement of changes in equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Total
January 1, 2015		500,000,000	51,847,607	51,039,342	**602,886,949**
Net income for the year		-	-	55,117,700	**55,117,700**
Transfer to statutory reserve		-	5,511,770	(5,511,770)	-
December 31, 2015		**500,000,000**	**57,359,377**	**100,645,272**	**658,004,649**
January 1, 2014		400,000,000	40,713,699	91,834,172	532,547,871
Net income for the year		-	-	111,339,078	111,339,078
Transfer to share capital	17	100,000,000	-	(100,000,000)	-
Transfer to statutory reserve		-	11,133,908	(11,133,908)	-
Dividend paid		-	-	(41,000,000)	(41,000,000)
December 31, 2014		500,000,000	51,847,607	51,039,342	602,886,949

The notes on pages 7 to 19 form an integral part of these consolidated financial statements.

Chief Executive Officer

Chief Financial Officer

Authorized Member of the Board

(All amounts in Saudi Riyals unless otherwise stated)

1. General information

Middle East Company for Manufacturing and Producing Paper (the "Company") and its subsidiaries (collectively the "Group") are engaged in production and sale of container board and industrial paper. The registered office of the Company is P.O. Box 32913, Jeddah 21438, Kingdom of Saudi Arabia. The Company's principal place of business is in Jeddah.

The Company was a limited liability company registered on Rajab 3, 1421H (December 31, 2000) under commercial registration number 4030131516 issued at Jeddah.

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 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).

The Company has investments in the following subsidiaries:

Subsidiary name	**Country of incorporation**	**Principal business activity**	**Ownership interest (%) at December 31 2015**	**2014**
Waste Collection and Recycling Company Limited ("WASCO")	Saudi Arabia	Whole and retail sales of paper, carton and plastic waste	**97 directly 3 indirectly**	97directly 3 indirectly
Special Achievements Company Limited	Saudi Arabia	Whole and retail sales of used papers, carton and plastic products	**97 directly 3 indirectly**	97directly 3 indirectly

These consolidated financial statements were approved by the Board of Directors of the Company on February 22, 2016.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting as modified by revaluation of derivative financial instruments to fair value and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants.

2.2 Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that could potentially have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Allowance for doubtful accounts receivable

An allowance for impairment of account receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Group provides an amount as allowance for doubtful accounts receivable on a monthly basis and reassesses the closing balance at each reporting date based on ageing of receivables and the detailed analysis of receivable from each customer on case by case basis and adjusts the closing balance of the allowance accordingly.

2. Summary of significant accounting policies (continued)

(b) Allowance for inventory obsolescence

An allowance for slow moving inventories is maintained at a level considered adequate to provide for potential loss on inventory items. The Group provides an amount as an allowance for obsolete and slow moving inventories on a monthly basis and reassesses the closing balance at each reporting date based on the result of a physical count and the outcome of the periodic inspections of inventory undertaken by its technical team. The amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made.

(c) Useful lives of property, plant and equipment

The management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

2.3 Investments

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising from acquisition of subsidiaries is reported under "intangible assets" in the consolidated balance sheet. Goodwill is tested annually for impairment and carried at cost, net of impairment losses, if any.

Inter-company transactions, balances and unrealized gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Segment reporting

(a) Business segment

A business segment is a group of assets, operations or entities:

(i) engaged in revenue producing activities;
(ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
(iii) financial information is separately available.

(b) Geographical segment

A geographical segment is a group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

2.5 Foreign currency translations

(a) Reporting currency

These consolidated financial statements are presented in Saudi Riyals which is the reporting currency of the Group.

2. Summary of significant accounting policies (continued)

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

(c) Group companies

The functional and presentation currency of the subsidiaries is Saudi Riyals. Therefore, the Group does not have any currency translation reserve as a separate component of equity.

2.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date.

2.7 Accounts receivable

Accounts receivable are carried at original invoice amount less allowance for accounts receivable. An allowance against accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such allowances are charged to the consolidated income statement and reported under “General and administrative expenses”. When account receivable is uncollectible, it is written-off against the allowance for doubtful accounts receivable. Any subsequent recoveries of amounts previously written-off are credited against “General and administrative expenses” in the consolidated income statement.

2.8 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads. Inventories in transit are valued at cost. Stores and spares are valued at cost, less any allowance for slow moving or obsolete items.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.9 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation except construction work in progress which is carried at cost. Land is not depreciated. Depreciation is charged to the consolidated income statement, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
• Buildings and mobile cabinets	6 - 33
• Machinery and equipment	5 - 20
• Furniture and fixtures	5 - 20
• Motor vehicles	4 - 5

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.10 Intangible assets

Intangible assets are carried at cost less accumulated amortization. Costs to acquire intangible assets having identifiable future benefits are capitalized and amortized using the straight-line method over the useful lives of the assets. The Group’s intangible assets comprise of software and Enterprise Recourse Planning (ERP) system development cost and are amortized over 5 years from the implementation date.

2. Summary of significant accounting policies (continued)

2.11 Derivative financial instrument

Derivative financial instrument, principally representing profit rate swap, is initially recorded at cost and re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instrument, as it does not qualify for hedge accounting, are recognized in the consolidated income statement as they arise and the resulting positive and negative fair values are reported under assets and liabilities, respectively, in the consolidated balance sheet.

2.12 Impairment of non-financial assets

Non-financial assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested for impairment annually. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated income statement. Impairment losses recognized on goodwill are not reversible.

2.13 Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs and upfront fee (deferred financial charges) incurred on borrowings. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the consolidated income statement.

2.14 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

2.15 Provision

Provisions are recognized when; the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

2.16 Zakat

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the consolidated income statement. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company and its Saudi Arabian subsidiaries withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

2.17 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the consolidated income statement. The liability is calculated; at the current value of the vested benefits to which the employee is entitled, should the employee leave at the consolidated balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

2.18 Revenues

Local sales are recognized upon delivery of goods to the customers and customer acceptance. Export sales are recognized when the risk and rewards are transferred to the customers based on the agreed shipment terms. Revenues are shown net of discounts after eliminating sales within the Group.

2. Summary of significant accounting policies (continued)

2.19 Selling, marketing, general and administrative expenses

Selling, marketing, general and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under generally accepted accounting principles. Allocations when required are made on a consistent basis.

2.20 Operating leases

Rental expenses under operating leases are charged to the consolidated income statement over the period of the respective lease.

2.21 Reclassifications

Certain reclassifications have been made for better presentation in the comparative 2014 consolidated financial statements to conform to 2015 presentation.

3. Financial instrument and risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by senior management under policies approved by the board of directors. The most important types of risk are credit risk, currency risk, liquidity risk and fair value and cash flow interest rate risks.

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, accounts receivable, due a from related party, other receivables, derivative financial instrument, short-term and long-term borrowings, notes payable, due to related parties, accounts payable and accrued and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each significant item.

Financial asset and liability are offset and net amounts reported in the financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

3.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group does not undertake significant transactions in currencies other than Saudi Riyals, US Dollars and to a limited extent Euros. The Saudi Riyal is pegged to the US Dollar. Management monitors its exposure on Euro transactions on a regular basis.

3.2 Price risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Group has no significant exposure to price risk at year end, as it has no financial instruments for which the fair value depends on a market price.

3.3 Fair value and cash flow interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in prevailing market interest rates on the Group financial positions and cash flows.

The interest rate risk arises mainly from certain borrowings which are at floating interest rates. The Group manages its cash flow interest rate risk by monitoring changes in profit rate risk in the currency in which its borrowings are denominated. The Company also has entered into a profit rate swap agreement to swap one of its floating rate borrowings to fixed rate borrowing to mitigate the cash flow interest rate risk.

(All amounts in Saudi Riyals unless otherwise stated)

3. Financial instrument and risk management (continued)

3.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Sales made during the year ended December 31, 2015 and accounts receivables balance as at December 31, 2015 from one of the Group's customers comprise of 24.5% and 17.3% (2014: 21.5% and 21.9%), respectively of the total sales and accounts receivable balance of the Group. The Group's management believes that the concentration of credit risk is mitigated, as the Group has a long standing relationship and an established track record of collection. Accounts receivable are carried net of provision of doubtful debts and are stated at their estimated realizable values. Cash is placed with banks with sound credit ratings.

3.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

3.6 Capital risk management

The Company manages its capital to maintain an appropriate capital structure and maximize returns. The capital structure may be adjusted by increasing or decreasing the amount of borrowing and cash distributions**.**

3.7 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group's financial instruments are recorded under the historical cost convention, except for derivative financial instrument which is carried at fair value, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

4. Cash and cash equivalents

	2015	**2014**
Cash at banks	**25,952,009**	32,189,509
Cash in hand	**4,053,543**	5,516,841
	30,005,552	37,706,350

5. Accounts receivable

	2015	**2014**
Trade receivables	**182,934,212**	203,350,599
Less: Allowance for doubtful accounts receivable	**(4,111,119)**	(5,651,362)
	178,823,093	197,699,237

Movement in allowance for doubtful accounts receivable is as follows:

	2015	**2014**
January 1	**5,651,362**	2,901,362
(Reversal) / allowance for the year	**(1,540,243)**	2,750,000
December 31	**4,111,119**	5,651,362

(All amounts in Saudi Riyals unless otherwise stated)

6. Inventories

	2015	2014
Spare parts and supplies - not available for sale	**58,687,077**	45,667,331
Raw materials	**96,758,443**	72,228,033
Finished goods	**33,002,718**	18,337,932
Goods in transit	**14,276,223**	3,406,183
	202,724,461	139,639,479
Less: Allowance for inventory obsolescence	**(3,425,600)**	(3,091,190)
	199,298,861	136,548,289

Movement in allowance for inventory obsolescence is as follows:

	2015	2014
January 1	**3,091,190**	3,219,040
Charge for the year	**2,442,550**	2,399,774
Write-off during the year	**(2,108,140)**	(2,527,624)
December 31	**3,425,600**	3,091,190

7. Prepayments and other receivables

	Note	2015	2014
Advances to suppliers		**51,093,342**	32,764,436
General Authority of Water	24	**30,490,630**	30,490,630
Prepaid expenses		**9,064,358**	5,907,591
Advance to employees		**6,150,644**	6,471,358
Prepaid contribution for training institute		**1,806,391**	8,100,000
Retentions		**958,212**	992,141
Initial public offering expenses		**-**	8,786,453
Others		**1,648,100**	585,307
		101,211,677	94,097,916

8. Related party matters

8.1 Related party transactions

Significant transactions with related parties in the ordinary course of business included in the financial statements are summarized below:

	2015	2014
Purchases	**5,090,201**	4,955,469
Purchases of fixed assets	**-**	1,722,268
Sales	**9,420,111**	11,503,629
Expenses	**-**	600,683
Key management personnel compensation	**13,865,141**	11,511,403
Board of Directors attendance allowances	**413,880**	432,400

8.2 Related party balances

(a) Due from a related party

	2015	2014
United Mining Industries	**5,713,244**	6,749,942

(All amounts in Saudi Riyals unless otherwise stated)

8. Related party matters (continued)

8.2 Related party balances (continued)

(b) Due to related parties

	2015	2014
Masdar Building Materials	**235,360**	176,842
Al-Muhaidib Technical Supplies Company	**80,185**	76,630
A.Abunayyan Electric Corp.	**6,568**	-
Industrial Cities Development and Operating Company	**4,052**	592,707
A.Abunayyan Trading Corp.	**-**	118,960
Water & Environment Technologies Co. Ltd.	**-**	20,500
	326,165	985,639

9. Derivative financial instrument

During the year 2015, the Company entered into a profit rate swap agreement (PRS) with a commercial bank to convert floating rate interest to fixed rate interest arrangement. At December 31, 2015 the positive fair value of the PRS was Saudi Riyal 83,682 (2014: Nil). The total contract amount is Saudi Riyal 200 million.

10. Intangible assets

Computer software and ERP

	2015	2014
Cost		
January 1	**2,573,449**	661,748
Additions during the year	**4,196,218**	1,911,701
December 31	**6,769,667**	2,573,449
Accumulated amortization		
January 1	**-**	-
Charge for the year	**(434,083)**	-
December 31	**(434,083)**	-
Intangible assets	**6,335,584**	2,573,449

The implementation of the ERP project was completed during the year 2015 and accordingly its amortization started during the year.

11. Property, plant and equipment

	January 1, 2015	Additions	Disposals	Transfers	December 31, 2015
Cost					
Land	66,770,400	-	-	-	**66,770,400**
Buildings and mobile cabinets	158,063,189	1,361,630	-	763,338	**160,188,157**
Machinery and equipment	1,095,141,101	26,078,552	-	161,157,179	**1,282,376,832**
Furniture and fixtures	22,155,143	3,088,353	(62,709)	403,239	**25,584,026**
Motor vehicles	35,430,362	7,069,300	(1,078,605)	-	**41,421,057**
Capital work-in-progress	127,814,048	107,846,252	-	(162,323,756)	**73,336,544**
	1,505,374,243	145,444,087	(1,141,314)	-	**1,649,677,016**
Accumulated depreciation					
Buildings and mobile cabinets	30,287,775	5,290,798	-	-	**35,578,573**
Machinery and equipment	403,624,912	88,612,388	-	-	**492,237,300**
Furniture and fixtures	16,361,351	2,578,916	(7,889)	-	**18,932,378**
Motor vehicles	28,299,154	3,629,847	(980,237)	-	**30,948,764**
	478,573,192	100,111,949	(988,126)	-	**577,697,015**
Net book value	1,026,801,051				**1,071,980,001**

(All amounts in Saudi Riyals unless otherwise stated)

11. Property, plant and equipment (continued)

	January 1, 2014	Additions	Disposals	Transfers	December 31, 2014
Cost					
Land	66,770,400	-	-	-	66,770,400
Buildings and mobile cabinets	153,690,424	3,109,008	-	1,263,757	158,063,189
Machinery and equipment	1,029,894,547	74,687,331	(9,822,151)	381,374	1,095,141,101
Furniture and fixtures	19,057,045	3,098,608	(510)	-	22,155,143
Motor vehicles	32,882,231	3,549,576	(1,026,345)	24,900	35,430,362
Capital work-in-progress	36,506,784	92,977,295	-	(1,670,031)	127,814,048
	1,338,801,431	177,421,818	(10,849,006)	-	1,505,374,243
Accumulated depreciation					
Buildings and mobile cabinets	25,138,331	5,149,444	-	-	30,287,775
Machinery and equipment	328,758,149	77,101,547	(2,234,784)	-	403,624,912
Furniture and fixtures	14,450,774	1,910,577	-	-	16,361,351
Motor vehicles	25,502,488	3,760,589	(963,923)	-	28,299,154
	393,849,742	87,922,157	(3,198,707)	-	478,573,192
Net book value	944,951,689				1,026,801,051

Capital work-in-progress at December 31, 2015 principally relates to the ongoing projects for plant and machinery.

All land, buildings and mobile cabinets, machinery and equipment and furniture and office equipment relating to the Company are pledged as collateral to Saudi Industrial Development Fund (SIDF) as a first degree pledge and to a commercial bank as a second degree pledge (see Note 13).

12. Short-term borrowings

The Group has short-term credit facilities from commercial banks comprising of short-term loans and guarantees. These borrowings bear financing charges at the prevailing market rates and are secured by promissory notes and guarantees by two of the Company's shareholders. These facilities include certain financial covenants which require the Group to maintain certain level of current ratio and leverage ratio. The Group is in compliance with these covenants.

13. Long-term borrowings

	Note	2015	2014
SIDF loan principal amount	(a)	**139,111,000**	157,550,000
Commercial bank loans principal amount	(b)	**486,000,000**	321,041,682
Less: deferred financial charges		**(6,468,492)**	(4,121,216)
		618,642,508	474,470,466
Current maturity shown under current liabilities		**(190,962,422)**	(153,924,111)
		427,680,086	320,546,355

(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 facility. This loan was fully utilized as of December 31, 2014. The loan is repayable in unequal semiannual installments ending November 2017.

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 of which Saudi Riyals 48.3 million was utilized as of December 31, 2015 (December 31, 2014: Saudi Riyals 22.8). The loan is repayable in unequal semiannual installments ending October 2019.

Upfront fees were deducted at the time of receipt of the loans. These fees are amortized 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.

13. Long-term borrowings (continued)

(b) The Group has obtained credit facilities from commercial banks. These loans bear financial charges based on prevailing market rates. These facilities are secured by promissory note, guarantees by two of the shareholders. For a commercial bank the loan is also secured by a second class mortgage on the Company's property, plant and equipment.

An upfront fee was deducted at the time of receipt of a loan from a commercial bank which is amortized over the period of the loan.

The above loans and facilities include certain financial covenants which require the Group to maintain certain level of current ratio, leverage ratio and certain restriction on dividend distribution. The Group is in compliance with these covenants. The loans are denominated in Saudi Riyals.

Maturity profile of borrowings is as follows:

	Loans' principal	Deferred financial charges	Net loan amount
2015			
Year ending December 31:			
2016	**193,000,000**	**(2,037,578)**	**190,962,422**
2017	**276,000,000**	**(2,032,010)**	**273,967,990**
2018	**56,000,000**	**(1,679,879)**	**54,320,121**
2019	**60,111,000**	**(719,025)**	**59,391,975**
2020	**40,000,000**	**-**	**40,000,000**
	625,111,000	**(6,468,492)**	**618,642,508**

	Loans' principal	Deferred financial charges	Net loan amount
2014			
Year ending December 31:			
2015	155,041,682	(1,117,571)	153,924,111
2016	153,000,000	(1,120,634)	151,879,366
2017	160,000,000	(1,117,571)	158,882,429
2018	10,550,000	(765,440)	9,784,560
	478,591,682	(4,121,216)	474,470,466

14. Accrued and other liabilities

	2015	2014
Employee related accruals	**15,229,310**	13,859,932
Accrued financial charges	**5,985,524**	3,573,553
Accrued transportation expenses	**2,900,660**	5,977,346
Accrued rent expenses	**2,405,922**	-
Advances from customers	**1,850,387**	1,389,993
Utilities	**95,436**	838,552
Other	**3,170,204**	2,729,716
	31,637,443	28,369,092

15. Zakat

15.1 Components of zakat base

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

(All amounts in Saudi Riyals unless otherwise stated)

15. Zakat (continued)

15.2 Provision for zakat

	2015	2014
January 1	**2,915,234**	2,373,941
Provisions		
- Provision for current year	**1,769,856**	2,915,234
- Adjustment related to prior years	**(79,574)**	(595,122)
Payments	**(2,835,660)**	(1,778,819)
December 31	**1,769,856**	2,915,234

15.3 Status of final assessments

The zakat position for the group is finalized till December 31, 2008.

The DZIT issued a query letter for years 2009 to 2012 requesting certain information related to the Company. The response has been duly submitted to the DZIT. The DZIT is currently reviewing the information submitted. The zakat declarations of the Company for the years 2013 and 2014 are currently under review with the DZIT.

The zakat declarations of its subsidiaries for the years 2009 to 2014 are currently under review by the DZIT.

16. Employee termination benefits

	2015	2014
January 1	**21,470,186**	16,197,659
Provision for the year	**4,503,572**	6,005,980
Payments during the year	**(1,530,925)**	(733,453)
December 31	**24,442,833**	21,470,186

17. Share capital

The share capital of the Company as of January 1, 2014 was comprised of 40,000,000 shares at Saudi Riyals 10 per share. The shareholders resolved on 8 Dhul-Qadah, 1435H (September 3, 2014) to increase the share capital, by an amount of Saudi Riyals 100 million at the existing shareholding percentages through transfer from retained earnings. The legal formalities to effect this change were completed in Dhul-Qadah, 1435H (September 2014). Consequently, the share capital of the Company as of December 31, 2014 and 2015 was comprised of 50,000,000 shares at Saudi Riyals 10 per share.

18. Statutory reserve

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

19. Selling and marketing expenses

	2015	2014
Transportation and shipping	**29,991,953**	29,084,069
Salaries and related benefits	**4,118,438**	3,831,734
Sales commission	**1,762,775**	2,406,155
Repair and maintenance	**865,379**	1,330,107
Credit insurance	**757,706**	797,800
Depreciation	**260,211**	329,238
Others	**2,984,691**	1,073,098
	40,741,153	38,852,201

(All amounts in Saudi Riyals unless otherwise stated)

20. General and administrative expenses

	2015	2014
Salaries and related benefits	**35,252,190**	36,997,846
Depreciation	**4,641,020**	3,307,914
Bank charges	**1,737,284**	2,022,728
Consultation fee	**1,525,978**	264,116
Government fee	**1,325,979**	1,431,272
Insurance	**1,280,369**	1,282,216
Repair and maintenance	**1,129,606**	2,067,202
Travel expenses	**967,752**	842,723
Communication	**926,006**	689,171
Professional fees	**728,023**	694,964
Stationery	**148,396**	102,046
(Reversal) / allowance for doubtful accounts receivable	**(1,540,243)**	2,750,000
Others	**2,127,215**	1,420,696
	50,249,575	53,872,894

21. Earnings per share

Earnings per share from income from operations and net income have been calculated by dividing income from operations and net income for the year, respectively over the weighted average number of shares outstanding during the year.

Total weighted average number of shares outstanding during the year 2015 and 2014 are 50,000,000 shares.

22. Segment information

The Group operates principally in two business segments. One segment is involved in the manufacturing of container board and industrial paper (Manufacturing segment), whereas the other segment is involved in wholesale and retail sales of paper, carton and plastic waste (Trading segment). Certain financial information classified under these two business segments are as follows:

	Manufacturing segment	Trading segment	Eliminations	Total
As at December 31, 2015				
Total assets	1,524,379,627	151,768,549	(82,696,482)	**1,593,451,694**
Property, plant and equipment	1,019,167,479	52,812,522	-	**1,071,980,001**
Intangible assets	3,906,746	2,428,838	-	**6,335,584**
For the year ended December 31, 2015				
Addition to property, plant and equipment	129,964,398	15,479,689	-	**145,444,087**
Addition to intangible assets	1,767,380	2,428,838	-	**4,196,218**
Sales	634,562,341	259,945,064	(213,337,343)	**681,170,062**
Gross profit	142,722,344	30,694,354	(560,609)	**172,856,089**
Financial charges	21,037,053	835,295	-	**21,872,348**
Depreciation and amortization	89,252,173	11,293,859	-	**100,546,032**
Net income	55,117,700	5,402,148	(5,402,148)	**55,117,700**

(All amounts in Saudi Riyals unless otherwise stated)

22. Segment information (continued)

	Manufacturing segment	Trading segment	Eliminations	Total
As at December 31, 2014				
Total assets	1,454,055,130	124,092,614	(75,971,510)	1,502,176,234
Property, plant and equipment	978,075,991	48,725,060	-	1,026,801,051
Intangible assets	2,573,449	-	-	2,573,449
or the year ended December 31, 2014				
Addition to property, plant and equipment	158,353,778	19,068,040	-	177,421,818
Addition to intangible assets	1,911,701	-	-	1,911,701
Sales	770,315,914	320,839,211	(264,727,668)	826,427,457
Gross profit	184,947,477	49,765,219	-	234,712,696
Depreciation	78,031,476	9,890,681	-	87,922,157
Financial charges	23,757,645	999,136	-	24,756,781
Net income	111,339,078	25,022,416	(25,022,416)	111,339,078

During the year ended December 31, 2015 the trading segment made sales amounting to Saudi Riyals 213.3 million (2014: Saudi Riyals 264.7 million), to the manufacturing segment.

The Group makes sales in local market and foreign markets in Middle East, Africa, Asia and Europe. Export sales during the year ended December 31, 2015 amounted to Saudi Riyals 263.2 million (2014: Saudi Riyals 288.9 million).

23. Operating leases

The Group has various operating leases for its buildings, warehouses and employees' accommodation which are renewed on an annual basis. Rental expenses for the year ended December 31, 2015 amounted to Saudi Riyals 8.7 million (2014: Saudi Riyals 7.8 million).

24. Contingencies and commitments

(i) At December 31, 2015, the Group had outstanding letters of credit of Saudi Riyals 19.6 million (December 31, 2014: Saudi Riyals 72.7 million) and letters of guarantee of Saudi Riyals 7.8 million (December 31, 2014: Saudi Riyals 4.9 million) that were issued in the normal course of the business.

(ii) The capital expenditure contracted by the Group but not incurred till December 31, 2015 was approximately Saudi Riyals 30 million (December 31, 2014: Saudi Riyals 19.1 million), which mainly related to the plant and machinery.

(iii) During 2008, the General Authority of Water (“GAW”) expropriated a plot of land and other premises that belonged to the Company and offered a compensation amounting to Saudi Riyals 28.9 million. The Company contested the compensation offered and raised a claim amounting to what is believed to be the fair value of the plot. During 2010, the Company obtained a court ruling ordering the GAW to pay Saudi Riyals 80.2 million, which was disputed by GAW. The Company continued to follow up with the courts.

During the year ended December 31, 2015, a new valuation was conducted by a committee that comprised various government officials. The committee finalized the valuation and determined the value of the land and other premises to be approximately Saudi Riyals 133 million. The Company is currently waiting for GAW to finalize their approval of this valuation and, accordingly, expects to receive the compensation during 2016.

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