

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER

(Saudi Closed Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

FOR NINE-MONTH PERIOD ENDED

SEPTEMBER 30, 2014

AUDITORS' REPORT

To the shareholders
Middle East Company for Manufacturing and Producing Paper
Saudi Closed Joint Stock Company
Jeddah, Saudi Arabia

Scope of Audit

We have audited the accompanying consolidated balance sheet of Middle East Company for Manufacturing and Producing Paper (a Saudi Closed Joint Stock Company) and its subsidiaries ("the Group") as of September 30, 2014, and the related consolidated statements of income, shareholders' equity and cash flows for the nine-month period then ended, and notes 1 to 25 which form an integral part of these consolidated financial statements as prepared by the Company and presented to us with all the information and explanations which we required. These consolidated financial statements are the responsibility of the Company'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 the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of September 30, 2014, and the consolidated results of its operations and its consolidated cash flows for the period from January 1, 2014 to September 30, 2014, in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia and appropriate to the nature of the Group.

AUDITORS' REPORT (Continued)

To the shareholders
Middle East Company for Manufacturing and Producing Paper
Saudi Closed Joint Stock Company
Jeddah, Saudi Arabia

Other Matters

- 1- Without qualifying our opinion, we draw the attention to the fact that comparative figures presented for the comparative period are unaudited, being prepared by the Company for presentation purposes.
- 2- As disclosed in note 24 to the consolidated financial statements regarding the re-issuance of the previously issued financial statements for the nine month period ended September 30, 2014.

Deloitte & Touche
Bakr Abulkhair & Co.

Waleed Bin Moha'd. Sobahi
Certified Public Accountant
License No. 378

23 Muharram, 1436
November 16, 2014

(14 Rabi'II, 1436 (corresponding to February 3, 2015) for
the matter mentioned in paragraph (2) above)

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(SAUDI CLOSED JOINT STOCK COMPANY)
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2014
(Amount in Saudi Riyals)

	Note	September 30, 2014 (Audited)	September 30, 2013 (Unaudited)
ASSETS			
Current assets			
Cash and cash equivalents		34,240,346	18,907,679
Accounts receivable-net	4	216,217,877	219,713,022
Inventories-net	5	116,793,364	157,621,404
Prepayments and other receivables	6	84,954,370	90,673,969
Due from related parties	17	-	53,588,359
Total current assets		452,205,957	540,504,433
Non-current assets			
Property, plant and equipment	8	1,014,383,119	932,113,914
Total non-current assets		1,014,383,119	932,113,914
TOTAL ASSETS		1,466,589,076	1,472,618,347
LIABILITIES AND EQUITY			
Current liabilities			
Bank overdraft		6,489,436	-
Short-term loans	9	267,051,220	223,705,517
Current portion of long-term loans	9	150,204,010	159,749,997
Notes payable		1,993,347	1,682,989
Accounts payable		33,636,614	29,057,194
Due to related parties	17	1,349,871	1,020,642
Accruals and other payables	10	34,053,979	32,039,432
Total current liabilities		494,778,477	447,255,771
Non-current liabilities			
Long-term loans	9	371,800,000	476,133,352
End-of-service indemnities	11	20,031,216	14,243,523
Total non-current liabilities		391,831,216	490,376,875
TOTAL LIABILITIES		886,609,693	937,632,646
Equity			
Share capital	12	500,000,000	400,000,000
Statutory reserve	13	49,556,850	38,457,482
Retained earnings		30,422,533	96,528,219
Total equity		579,979,383	534,985,701
TOTAL LIABILITIES AND EQUITY		1,466,589,076	1,472,618,347

The accompanying notes form an integral part of these consolidated financial statements

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(SAUDI CLOSED JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF INCOME
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2014
(Amount in Saudi Riyals)

	Note	Nine-month period ended September 30	
		2014 (Audited)	2013 (Unaudited)
Sales		622,085,511	571,813,785
Cost of sales		(442,623,328)	(418,716,980)
Gross profit		179,462,183	153,096,805
Selling and marketing expenses	14	(31,676,391)	(30,954,959)
General and administrative expenses	15	(37,316,012)	(30,268,175)
Operating income		110,469,780	91,873,671
Finance charges – net		(19,143,161)	(22,330,688)
Other income		782,332	909,692
Net income before zakat and income tax		92,108,951	70,452,675
Zakat and income tax	16	(3,677,439)	(5,441,944)
NET INCOME		88,431,512	65,010,731
NET INCOME ATTRIBUTABLE TO:			
Shareholders of the parent		88,431,512	65,516,592
Non-controlling interest		-	(505,861)
Net income		88,431,512	65,010,731
Earnings per share from net income	25	1.77	1.31
Earnings per share from continuing main operations	25	1.75	1.29

The accompanying notes form an integral part of these consolidated financial statements

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(SAUDI CLOSED JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2014
(Amount in Saudi Riyals)

	Note	Nine-month period ended September 30	
		2014 (Audited)	2013 (Unaudited)
Share capital			
January 1,		400,000,000	400,000,000
Transfer from retained earnings		100,000,000	-
September 30,	12	500,000,000	400,000,000
Statutory reserve:			
January 1,		40,713,699	31,905,823
Transfer to Statutory reserve		8,843,151	6,551,659
September 30,	13	49,556,850	38,457,482
Retained earnings:			
January 1,		91,834,172	37,563,286
Net income for the period		88,431,512	65,516,592
Transfer to statutory reserve		(8,843,151)	(6,551,659)
Dividend		(41,000,000)	-
Transfer to share capital		(100,000,000)	-
September 30,		30,422,533	96,528,219
Total shareholders' equity of the parent company		579,979,383	534,985,701
Non-controlling interest:			
January 1,		-	43,724
Net loss for the period attributable to non-controlling interest		-	(505,861)
Movement during the period		-	(3,390)
Disposal of subsidiary		-	465,527
September 30,		-	-
Total shareholders' equity of the company		579,979,383	534,985,701

The accompanying notes form an integral part of these consolidated financial statements

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(SAUDI CLOSED JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2014
(Amount in Saudi Riyals)

	Nine-month period ended September 30	
	2014 (Audited)	2013 (Unaudited)
OPERATING ACTIVITIES		
Net income before zakat and income tax	92,108,951	70,452,675
Adjustments for:		
Depreciation	64,609,335	57,512,963
Financial charges – net	19,143,161	22,330,688
Gain from sale of property, plant and equipment	(33,694)	(78,127)
Provision for doubtful accounts receivables	2,250,000	2,250,000
Provision for slow moving inventory	4,441,610	2,250,000
End-of-service indemnities	4,435,114	5,598,578
Changes in operating assets and liabilities:		
Accounts receivable – net	(17,776,912)	(44,787,100)
Inventories – net	13,685,893	(30,850,711)
Prepayments and other receivables	1,607,427	3,226,040)
Due from related parties	53,413,021	20,283,081
Accounts payable	6,298,953	(2,789,454)
Due to related parties	757,329	(8,800,552)
Accruals and other payables	5,201,568	8,114,059
Cash from operations	250,141,756	104,712,140
Financial charges paid – net	(19,804,040)	(23,104,135)
Zakat paid	(1,778,819)	(3,985,789)
End-of-service indemnities paid	(601,557)	(2,081,778)
Net cash from operating activities	227,957,340	75,540,438
INVESTING ACTIVITIES		
Payments on divestment of investment	-	(484,529)
Purchase of property, plant and equipment	(134,118,354)	(69,660,494)
Proceeds from sale of property, plant and equipment	773,031	443,737
Net cash used in investing activities	(133,345,323)	(69,701,286)
FINANCING ACTIVITIES		
Bank overdraft	6,489,436	-
Proceeds/ (repayment) of short-term loans and notes payable	39,172,855	(62,118,200)
(Repayment)/ proceeds of long-term loans	(99,004,336)	56,502,253
Dividend paid	(41,000,000)	-
Net cash used in financing activities	(94,342,045)	(5,615,947)
Net change in cash and cash equivalents	269,972	223,205
Cash and cash equivalents, January 1	33,970,374	19,965,414
Cash and cash equivalent related to disposal of a subsidiary (note 7)	-	(1,280,940)
CASH AND CASH EQUIVALENTS, SEPTEMBER 30	34,240,346	18,907,679

The accompanying notes form an integral part of these consolidated financial statements

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(Saudi Closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2014
(Amount in Saudi Riyals)

1. ORGANIZATION AND ACTIVITIES

Middle East Company for Manufacturing and Producing Paper ("the Company") and its subsidiaries (collectively "the Group") consist of the Company and its subsidiaries.

The Company was a limited liability Company registered on 3 Rajab, 1421 (October 1, 2000) under commercial registration number 4030131516 issued at Jeddah.

The shareholders resolved to convert the legal status of the Company 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 14/2/1433 (January 8, 2012).

These consolidated financial statements do not represent the statutory financial statements of the Company and are prepared solely for the use of the Company's shareholders, management and its financial advisors.

The principal activities of the Group are production and sale of craft paper and contour paper according to the license of the Ministry of Commerce and Industry No 1500/S dated 28 Dhual-Qa'dah, 1420.

The Company's principal place of business is Jeddah.

BASIS OF CONSOLIDATION

The consolidated financial statements include the Company and its subsidiaries controlled by the Company as of reporting dates. Control is achieved where the Company has the power to govern the financial and operating policies of the investee company so as to obtain benefits from its activities.

Income and expenses of the subsidiaries acquired or disposed-off during the period, if any, are included in the consolidated statement of income from the effective date of acquisition and up to effective date of disposal, as appropriate. Total income of the subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests.

Inter-company transactions, balances and unrealized gains on the transactions between group companies are eliminated. Unrealized losses are also eliminated. Accordingly policies of the subsidiaries have been changed where necessary to ensure with the policies adopted by the Company.

Non-controlling interests represent the interest in subsidiary companies, not held by the Company.

Name of subsidiary	Place of incorporation	Proportion of ownership	Principal activities
Waste Collection and Recycling Company Limited	Saudi Arabia	97% Directly 3% Indirectly	Whole and retail sales of paper, carton and plastic waste
Special Achievements Company Limited.	Saudi Arabia	97% Directly 3% Indirectly	Whole and retail sales of used papers, carton and plastic products
MOL Fiber Company Limited	United Kingdom	51% Directly	Wholesale of waste papers

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date such control ceases. During May 2013, MOL Fiber Company Limited was sold and the results of its operations have been consolidated till the date of disposal.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2014
(Amount in Saudi Riyals)

2. SUMMARY 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 periods presented, unless otherwise stated.

Basis of preparation

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, and in compliance with the accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA") appropriate to the nature of the Group.

The following is a summary of significant accounting policies applied by the Group:

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposit held at call with banks and other highly liquid investments with original maturities of three months or less from the date of acquisition.

Critical accounting estimates and judgments

The preparation of financial statements in conformity with accounting principles generally accepted in the Kingdom of Saudi Arabia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements 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. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

Accounts receivable

Accounts receivable consist of trade receivables which are carried at original invoice amount less provision for doubtful accounts receivable. A provision for doubtful 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 provisions are charged to the consolidated statement of income and reported under "Selling and marketing expenses". When an account receivable is proved uncollectible, it is written-off against the provision for doubtful accounts. Any subsequent recoveries of amounts previously written-off are allocated to other income in the consolidated statement of income.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished products include the cost of raw materials, labor and direct production overheads in addition to a specific percentage provision is made for obsolete and slow moving inventories.

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Investment in companies

(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.

(b) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted using the equity method of accounting and are initially recognized at cost.

The Group's share of the earnings and losses of its associates is recognized in the consolidated statement of income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associates.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates

(c) Investments Accounted at Cost Method

Investments in other companies in which the Group owns less than 20% of share capital, whose shares are not readily marketable and fair value cannot be determined, are stated at cost. Provision, if any, for permanent decline in value is recorded in the period in which the decline is determined. Dividends, if any, are recorded as income when right to receive is established.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation except for the land which is recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The annual depreciation rates used are as follows:

Buildings and Mobile cabinets	3-17%
Machinery and equipment	5-20%
Furniture and office fixtures	5-33%
Motor vehicles	20%

Maintenance and normal repairs, which do not materially extend the estimated useful life of an asset, are charged to consolidated statement of income as and when incurred. Major renewals and improvements, if any, are capitalized and the carrying amount of the replaced assets is derecognized. Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset and are included in consolidated statement of income currently.

Capital work in progress represents cost incurred on capital projects and is to be transferred to the related property, plant and equipment category once the project is completed.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, 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 should 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 statement of income. Impairment losses recognized on intangible assets are not reversible.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of income on a straight line basis over the period of the lease.

When the Group leases property, plant and equipment and has substantially all the risks and rewards of ownership are classified as finance leases (or capital lease). Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Accounts payable and accruals

Accounts payable and accruals are obligations to pay for goods and services received, whether or not billed to the Group.

Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred.

Borrowing costs that are directly attributable to the acquisition, construction or development of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets. Other borrowing costs are charged to consolidated statement of income currently.

End of service indemnities

End of service indemnities required by Saudi Arabian Labor Regulations are provided for and charged to consolidated statement of income currently.

Provisions

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

Revenue recognition

Local sales are recognized upon delivery of goods to the customers. Export sales are recognized upon transfer of risk and rewards to the customers. Other income is accounted for when earned. Dividend income from investments is recognized when the right to receive payment is established.

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.

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Zakat

In accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"), provision for zakat is charged to consolidated statement of income currently. The zakat charge is computed on the higher of the zakat base or adjusted net income. Additional zakat payable, if any, at the finalization of assessments is accounted for when such amounts are finally determined.

Dividends distribution

Dividends, relating to limited liability subsidiaries, are recorded in its financial statements in the period in which they are approved by its respective shareholders.

Foreign currency translations

These consolidated financial statements are presented in Saudi riyals, which is the reporting currency of the Group except a subsidiary whose reporting currency is sterling pound.

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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income.

On consolidation, the assets and liabilities of one of the Group's subsidiaries are translated into Saudi riyals at the exchange rates prevailing on the consolidated balance sheet date. Income and expenses are translated at the average exchange rates for the period. Exchange differences arising, if material, are classified as equity and transferred to the group's foreign currency translation reserve. Such translation differences are recognized in the consolidated statement of income in the period in which the foreign operation is disposed of.

3. FINANCIAL RISK MANAGEMENT

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, account receivable, due from related parties, accounts payable, notes payable, due to related parties and borrowing facilities and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The important types of risks are summarized below:

(a) Financial Risk Factors

(i) Market Risk

Foreign exchange risk- The risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

The Group operates locally and has limited exposure to foreign currency exchange risk as all significant transactions are based on Saudi Riyals. Group's management actively monitors the fluctuations in foreign currency exchange risk and believes that currency risk is not significant.

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 exposure to price risk at period end, as it has no financial instruments of which the fair value depends on a market price.

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 borrowings as well as cash and cash equivalents which the Group closely monitors.

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(Amount in Saudi Riyals)

(ii) Credit Risk

Credit risk is the risk that financial institutions and customers might not fulfill their contractual payment obligations towards the Group.

The Group's credit risk arises from cash and cash equivalents, which is placed with banks with sound credit ratings and from accounts receivable. There is no concentration of accounts receivable and they are stated at net of provisions.

(iii) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group liquidity risk management includes maintaining sufficient cash and cash equivalents and ensuring the availability of funding through credit facilities. Management monitors and forecasts the Group's liquidity requirements based on current and non-current expected cash flows. Additional financing, if needed, is obtained from the banks and owners.

(b) Capital Risk Management

The Group 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, cash distributions and owner's credit account.

(c) 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 consolidate financial statements are prepared under the historical cost method, differences can arise between the book values and the 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. ACCOUNTS RECEIVABLE - NET

	September 30, 2014 (Audited)	September 30, 2013 (Unaudited)
Accounts receivable - trade	221,369,239	224,540,623
Less: Provision for doubtful accounts - net	(5,151,362)	(4,827,601)
	216,217,877	219,713,022

5. INVENTORIES - NET

	September 30, 2014 (Audited)	September 30, 2013 (Unaudited)
Spare parts and supplies, not available for sale	54,822,355	66,428,935
Raw materials	54,841,473	87,112,598
Finished goods	13,960,040	7,137,447
Less: Provision for slow moving inventories	(6,830,504)	(3,057,576)
	116,793,364	157,621,404

During the period, the Company wrote-off inventory amounting to SR 830,146 (September 30, 2013: Nil).

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Amount in Saudi Riyals)

6. PREPAYMENTS AND OTHER RECEIVABLES

	September 30, 2014 (Audited)	September 30, 2013 (Unaudited)
General Authority of Water (note 18)	30,490,630	30,490,630
Advances to suppliers	31,141,072	34,441,052
Advances to employees	5,546,550	4,399,251
Prepaid expenses	10,353,876	10,039,044
Retentions	1,038,358	908,772
Margin deposit	47,782	669,725
Others	6,336,102	9,725,495
	84,954,370	90,673,969

7. INVESTMENT IN A COMPANY

During May 2013, the Group disposed its investment in MOL Fiber Company Limited (incorporated in United Kingdom) at the net book value as of date of the sale to its existing shareholder.

The Company's share of net liabilities as of May 31, 2013 in a subsidiary disposed off during 2013 includes:

Account receivables	4,004,338
Cash and cash equivalents	1,280,940
Accounts payable	(6,235,334)
Net liabilities	(950,056)
Non- controlling interest	465,527
Company's share of net liabilities	(484,529)

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(Saudi Closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Amount in Saudi Riyals)

8. PROPERTY, PLANT AND EQUIPMENT

September 30, 2014 (Audited)	January 1	Additions	Disposals	Transfers	September 30
Cost					
Land	66,770,400	-	-	-	66,770,400
Buildings and mobile cabinets	153,690,424	1,398,616	-	879,169	155,968,209
Machinery and equipment	1,029,894,547	51,417,959	(1,176,221)	326,541	1,080,462,826
Furniture and fixture	19,057,045	2,571,388	(510)	-	21,627,923
Motor vehicles	32,882,231	3,413,376	(487,600)	-	35,808,007
Capital work in progress	37,168,532	75,317,015	-	(1,205,710)	111,118,547
Total	1,339,463,179	134,118,354	(1,664,331)	-	1,471,917,202
Accumulated Depreciation					
Buildings and mobile cabinets	25,138,331	3,846,622	-	-	28,984,953
Machinery and equipment	328,758,149	56,545,064	(437,397)	-	384,865,816
Furniture and fixture	14,450,774	1,379,016	-	-	15,829,790
Motor vehicles	25,502,488	2,838,633	(487,597)	-	27,853,524
Total	393,849,742	64,609,335	(924,994)	-	457,534,083
Net book value	945,613,437				1,014,383,119

September 30, 2013 (Unaudited)	January 1	Additions	Disposals	Transfers	September 30
Cost					
Land	59,319,884	7,440,516	-	-	66,760,400
Buildings and mobile cabinets	152,695,687	1,865,813	-	-	154,561,500
Machinery and equipment	976,293,519	40,827,681	(1,026,553)	70,429	1,016,165,076
Furniture and fixture	17,262,037	3,292,914	-	-	20,554,951
Motor vehicles	32,592,487	443,661	(769,690)	-	32,266,458
Capital work in progress	288,752	15,789,909	-	(70,429)	16,008,232
Total	1,238,452,366	69,660,494	(1,796,243)	-	1,306,316,617
Accumulated Depreciation					
Buildings and mobile cabinets	20,410,414	4,368,914	-	-	24,779,328
Machinery and equipment	263,121,507	47,822,192	(1,026,553)	-	309,917,146
Furniture and fixture	12,749,228	2,069,650	-	-	14,818,878
Motor vehicles	21,839,224	3,252,207	(404,080)	-	24,687,351
Total	318,120,373	57,512,963	(1,430,633)	-	374,202,703
Net book value	920,331,993				932,113,914

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As at September 30, 2014, land includes a plot of land with a cost of SR 24.4 million (September 30, 2013: SR 24.4 million) under the beneficial ownership of the Group. Title for this plot is in the name of a Group's shareholder who has assigned the interest in the title of the land to the Group. The land is currently used for the purposes of fulfilling the Group's temporary / seasonal warehousing requirements. Legal formalities to affect the transfer are currently in process.

During 2013, the Group acquired a land for SR 7.5 million. The land was acquired for the purpose of transferring and upgrading an existing waste paper collection facility of the Group. The related title deed is in the final stage of transfer of title.

All land, buildings and mobile cabinet, 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 Arab National Bank as a second degree pledge (see note 9).

9. LOANS AND BANK FACILITIES

Loans and bank facilities consist of the following:

	September 30, 2014 (Audited)	September 30, 2013 (Unaudited)
Short term loans - See (a) below	267,051,220	223,705,517
Long term loans		
Commercial loans - See (a) below	346,454,010	447,083,349
Saudi Industrial Development Fund (SIDF) - see (b) below	175,550,000	188,800,000
	522,004,010	635,883,349
Less : current portion of long term loans	(150,204,010)	(159,749,997)
	371,800,000	476,133,352

- a) The Group has credit facilities from several commercial banks in Financing, Tayseer, short term and long term Tawarruq for financing the import of materials and equipment. The Group has outstanding loan facilities amounting to SR 614 million as of September 30, 2014 (September 30, 2013: SR 671 million). These facilities are secured by promissory note, personal guarantees by the shareholders and second class mortgage on the Company's property, plant and equipment (see note 8). The facilities carried interest rates of SIBOR plus a certain percentage and are repayable in different periods from 6 months to 6 years for each transaction.
- b) The Company signed a loan agreement with SIDF amounting to SR 255 million in 2012 to partially finance the construction of the manufacturing facilities of which SR 152.8 million were utilized as of September 30, 2014 (September 30, 2013: SR 189 million). The repayment of outstanding balance as of September 30, 2014 will be in unequal semiannual installments ending May 2017.

The Company has signed additional loan agreement with SIDF amounting SR 124.7 million of which SR 22.7 million were utilized as of September 30, 2014 (September 30, 2013: Nil). The loan will be repayable in unequal semiannual installments ending March 2022.

Under the terms of the SIDF loan agreement, the Company's property, plant and equipment are pledged as collateral to the SIDF (see note 8). The loan is also guaranteed by the shareholders.

- c) The above loans and facilities include certain financial covenants which provide, among other items, restrictions relating to the current ratio, dividend distribution and leverage ratios. The Company's liquidity ratio is marginally below the required ratio, the management is confident that it will improve this ratio before year-end and will not have an impact on its facilities.

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Maturity

Following is the maturity profile of the long-term loans bifurcated in 12 months period from the reporting dates:

Period	September 30, 2014 (Audited)	September 30, 2013 (Unaudited)
September 30, 2014	-	159,749,997
September 30, 2015	150,204,010	157,083,332
September 30, 2016	151,000,000	149,000,000
September 30, 2017	156,000,000	133,750,000
September 30, 2018	62,250,000	36,300,020
September 30, 2019	2,550,000	-
	522,004,010	635,883,349

10. ACCRUALS AND OTHER PAYABLES

	September 30, 2014 (Audited)	September 30, 2013 (Unaudited)
Financial charges	4,823,105	5,106,867
Employee related accruals	12,051,612	8,744,814
Higher Institute for Paper & Industrial Technologies	242,294	1,343,926
Advances from customers	834,342	666,138
Transportation	6,760,625	7,302,983
Zakat and income tax (note 16)	4,272,561	1,681,125
Utilities	2,499,317	335,006
Others	2,570,123	6,858,573
	34,053,979	32,039,432

11. END-OF-SERVICE-INDEMNITIES

	September 30, 2014 (Audited)	September 30, 2013 (Unaudited)
January 1,	16,197,659	10,726,723
Provision for the period	4,435,114	5,598,578
Payments during the period	(601,557)	(2,081,778)
	20,031,216	14,243,523

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12. SHARE CAPITAL

The share capital of the Company comprised of 40,000,000 shares at par value of SR 10 each, owned by the shareholders as follows:

Shareholder	Percentage of Ownership	Amount
A.K Al-Muhaidib and Sons Company (AKMS)	35.32%	141,280,000
Ibrahim Abdullah Abu Nayyan and Brothers Company	35.32%	141,280,000
Abdullah A. Bin Al-Moammar	19.46%	77,840,000
Emad Abdel Kader Al-Muhaidib	4.95%	19,800,000
Abdulelah Abdullah Abu Nayyan	4.95%	19,800,000
	100%	400,000,000

During the period, the shareholders resolved on 8 Dhul- Qadah, 1435 (September 3, 2014) to increase the share capital, by an amount of SR 100 million, to be SR 500 million at the existing shareholding percentages, through retained earnings. The legal formalities to effect this change were completed on 20 Dhul- Qadah, 1435 (September 15, 2014). After the change, the Company's share capital is amounting to SR 500,000,000 divided into 50,000,000 shares of SR 10 each and owned as follows.

Shareholder	Percentage of Ownership	Amount in SR
A.K Al-Muhaidib and Sons Company (AKMS)	35.32%	176,600,000
Ibrahim Abdullah Abu Nayyan and Brothers Company	35.32%	176,600,000
Abdullah A. Bin Al-Moammar	19.46%	97,300,000
Emad Abdel Kader Al-Muhaidib	4.95%	24,750,000
Abdulelah Abdullah Abu Nayyan	4.95%	24,750,000
	100%	500,000,000

13. 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.

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14. SELLING AND MARKETING EXPENSES

	Nine-month period ended September 30	
	2014 (Audited)	2013 (Unaudited)
Salaries and related benefits	2,921,794	2,506,835
Transportation and shipping	22,709,607	21,689,463
Sales commissions	2,018,744	2,697,052
Provision for doubtful accounts receivable	2,250,000	2,250,000
Repairs and maintenance	870,555	807,520
Depreciation	242,369	344,605
Others	663,322	659,484
	31,676,391	30,954,959

15. GENERAL AND ADMINISTRATIVE EXPENSES

	Nine-month period ended September 30	
	2014 (Audited)	2013 (Unaudited)
Salaries and related benefits	26,679,147	21,064,648
Depreciation	2,440,736	2,536,854
Professional fees	603,037	491,174
Repairs and maintenance	1,452,005	551,629
Communications	450,444	512,119
Travel expenses	604,385	614,161
Rent	13,500	167,453
Insurance expenses	868,472	577,052
Consultation fee	442,979	63,210
Training	23,328	24,761
Stationary	83,429	338,473
Governmental fees	1,142,951	677,223
Bank charges	1,169,685	417,105
Others	1,341,914	2,232,313
	37,316,012	30,268,175

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16. ZAKAT

The Group's zakat charge has been computed based on the separate financial statements of the Company and its subsidiaries.

a. The principal elements of the group zakat base are as follows;

	September 30, 2014 (Audited)	September 30, 2013 (Unaudited)
Non-current assets	1,014,383,119	932,113,914
Non-current liabilities	391,831,216	490,376,875
Opening shareholders' equity	532,547,871	469,469,109
Net income before zakat and income tax	92,108,951	70,452,675

b. Movement in zakat provision is as follows:

	September 30, 2014 (Audited)	September 30, 2013 (Unaudited)
January 1,	2,373,941	188,968
Provision for the period *	4,272,561	2,305,463
(Reversal)/prior periods shortfall	(595,122)	3,172,483
Paid during the period	(1,778,819)	(3,985,789)
	4,272,561	1,681,125

* As at September 30, 2014, zakat provision charged to consolidated statement of income has been netted-off with the reversal of a charge of SR Nil (September 30, 2013: SR 36,002) related to a subsidiary disposed off during 2013.

c. Status of the final assessments

The Company has received additional zakat assessments amounting to SR 12.8 million related to 2006 to 2008. The Company appealed against such assessments and during 2012, the DZIT reduced the claim amount to SR 3.7 million. The Company has paid the reduced amount during 2013.

Zakat declarations for the years 2009 to 2013 are under review by the DZIT.

17. RELATED PARTY MATTERS

During the period, the Company transacted with the following related parties:

Name	Relationship
A.K Al-Muhaidib and Sons Company (AKMS)	Shareholder
Ibrahim Abdullah Abu Nayyan and Brothers Company	Shareholder
Abdullah A. Bin Al-Moammar	Shareholder
Beatona Company	Affiliate
Industrial Cities Development and Operating Company	Common Shareholders

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b. Significant related party transactions during the period are as follows:

	Nine-month period ended September 30	
	2014 (Audited)	2013 (Unaudited)
Purchases	3,409,108	3,019,522
Purchases of fixed assets	1,722,268	97,826
Sales	-	523,100
Expenses	600,683	1,584,099

c. Due from related parties

	September 30, 2014 (Audited)	September 30, 2013 (Unaudited)
Beatona Company*	-	52,970,147
Abdullah A. Bin Al-Moammar	-	618,212
	-	53,588,359

* At September 30, 2014, due from Beatona Company includes SR Nil (September 30, 2013: SR 52,970,147) that represent the net receivable balance against sale of investments in Societe Marociane De Recuperation Et De Recyclage, Morocco and a joint project between Middle East Environment Production Company and Waste Collection and Recycling Company Limited (a subsidiary who agreed to transfer the related consideration to the Company for collection purpose) during 2011.

d. Due to related parties

	September 30, 2014 (Audited)	September 30, 2013 (Unaudited)
Industrial Cities Development and Operating Company*	1,262,497	791,540
Ibrahim Abdullah Abu Nayyan and Brothers Company	-	114,551
A.K Al-Muhaidib and Sons Company	-	114,551
Beatona Company	87,374	-
	1,349,871	1,020,642

* As at September 30, 2014, due to related party of SR 1,262,497 (September 30, 2013: 791,540) represents payable to Industrial Cities Development and Operating Company for the ongoing purchases of water by the Company in the normal course of business.

18. CLAIM

During 2008, the General Authority of Water (GAW) expropriated a plot of land and other premises that belonged to the Company and unfairly offered a compensation of SR 28.9 million. The Company contested the compensation and raised a claim amounting to the fair value of the plot. Later on, the Company obtained a court ruling ordering the GAW to pay SR 80.2 million, which was disputed by GAW.

The Company raised the case to an Appeal Committee where the appeal is still in process. The management of the Company, based on a legal opinion, is certain that the ultimate outcome will be in their favor and gain will be recognized when the outcome of the claim is finally determined.

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19. OPERATING LEASES

The Group has various operating lease agreements, which generally have a term of one year, principally related to some properties. Rental expenses relating to such agreements for the period ended September 30, 2014 amounted to SR 5,492,491 (September 30, 2013: SR 5,768,757).

20. CONTINGENCIES AND COMMITMENTS

At September 30, 2014, the Group was liable for outstanding letters of credits of SR 122,125,316 (September 30, 2013: SR 13,521,256) and letters of guarantee of SR 3,398,200 (September 30, 2013: SR 3,734,900) issued in the normal course of the business.

21. NON CASH TRANSACTIONS

	September 30, 2014 (Audited)	September 30, 2013 (Unaudited)
Non- controlling interest share of current period net loss	-	509,251
Inventory written off during the period	830,146	-
Disposal of non-controlling interest share of net assets disposed during the period	-	465,527
Adjustment for a net assets during the period adjusted against prepayments and other receivables balance	-	32,612
Accounts receivable of a subsidiary sold during the period	-	4,004,338
Cash and cash equivalents of a subsidiary sold during the period	-	1,280,940
Accounts payable of a subsidiary sold during the period	-	6,235,334
Transfer from retained earnings to share capital	100,000,000	-

22. SEGMENT REPORTING

The Group's principal activities involve manufacturing and trading. The assets, liabilities, revenues and net income of the Company and its subsidiaries classified under the business segment as at and for the period ended as follows (SR 000):

September 30, 2014 (Audited)	Manufacturing Segment	Trading Segment	Elimination	Total
Assets	1,418,760	122,296	(74,467)	1,466,589
Liabilities	838,781	54,513	(6,684)	886,610
Sales	580,239	228,024	(186,178)	622,085
Gross profit	143,169	36,293	-	179,462
September 30, 2013 (Unaudited)	Manufacturing Segment	Trading Segment	Elimination	Total
Assets	1,445,059	112,774	(85,215)	1,472,618
Liabilities	910,073	70,014	(42,454)	937,633
Sales	522,705	230,867	(181,758)	571,814
Gross profit	122,181	30,916	-	153,097

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23. FAIR VALUE

The fair value of the Group's financial assets and liabilities, except for the investments in companies, approximate their carrying amounts.

24. REISSUED FINANCIAL STATEMENTS

The Group has reissued these consolidated financial statements to represent the financial information related to the parent and non-controlling interest allocation of the net income in the consolidated income statement on the same basis as reflected in 2013 consolidated financial statements.

25. EARNING PER SHARE

Earnings per share from net income have been calculated by dividing the net income over the weighted average number of shares outstanding during the period.

Earnings per share from continuing main operations are computed by dividing net income excluding other (expenses) income for the period by weighted average number of shares outstanding during the period.