

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS (Unaudited)**
FOR THE THREE MONTHS PERIOD
AND YEAR ENDED DECEMBER 31, 2020
WITH INDEPENDENT AUDITOR'S REVIEW REPORT

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE MONTHS PERIOD AND YEAR ENDED DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the shareholders of
Saudi Paper Manufacturing Company
(A Saudi Joint Stock Company)
Dammam - Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Saudi Paper Manufacturing Company, A Saudi Joint Stock Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2020, the related condensed consolidated interim statement of profit or loss and other comprehensive income for the three months period and year then ended, the condensed consolidated interim statements of changes in equity and cash flows for the year then ended and notes including a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard No. 34, "Interim Financial Reporting" ("IAS-34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Basis for Qualified Conclusion

Management had performed an assessment for the impairment of the Group's trade receivables as of December 31, 2019. Based on the results of this assessment, a reversal in allowance for impairment of trade receivables, amounting to SR 31.4 million, was recognised during the year ended December 31, 2019. However, management had not performed an assessment for the impairment of the Group's trade receivables as of December 31, 2018, as required by IFRS 9 - Financial instruments and had not reflected the resulting impact, if any, in the statement of financial position and statement of profit or loss for the year ended December 31, 2018 and in the accumulated losses of the Group as of January 1, 2019. Accordingly, we are unable to determine whether any adjustment to accumulated losses of the Group as of January 1, 2019 and results for the year ended December 31, 2019, is necessary.

Qualified Conclusion

Based on our review, except for the matter described in the previous paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with "IAS 34" as endorsed in the Kingdom of Saudi Arabia.

Emphasis of Matters

We draw attention to:

- 1- Note 4 of these condensed consolidated interim financial statements which states that the management engaged a third party consultant for impairment assessment of its property, plant and equipment as at December 31, 2020 based on which 0.95 million impairment loss was recognised during the year ended December 31, 2020 (December 31, 2019: nil). The assessment includes assumptions related to future sales volume, prices, annual growth rates, terminal growth rates, net realizable value, discount rates and other related factors. The outcome of these assumptions is highly dependent on the success of future operations and market conditions as estimated by management and achieving its plans in future. Management is confident of its ability to meet its future business plan and believes that the carrying value of property, plant and equipment as of December 31, 2020 will not exceed their recoverable amounts.

**INDEPENDENT AUDITOR'S REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS (Continued)**

To the shareholders of
Saudi Paper Manufacturing Company
(A Saudi Joint Stock Company)
Dammam - Kingdom of Saudi Arabia.

Emphasis of Matters (Continued)

We draw attention to:

- 2- Note 4 of these condensed consolidated interim financial statements which states that the management engaged a third party consultant for the impairment assessment of certain unutilized assets of property, plant and equipment as of December 31, 2020, amounting to SR 29.46 million (December 31, 2019: SR 43.7 million). Based on the results of this assessment, management has concluded that impairment amounting SR 0.6 million was required for these unutilized assets as of December 31, 2020 (December 31, 2019: SR 3.2 million). The assessment includes assumptions related to estimated selling price in ordinary course of business, estimated cost of completion and estimated cost necessary to make the sales of these assets. The outcome of these assumptions is highly dependent on market conditions as estimated by management and achieving its plans in future. Management is currently assessing the alternative utilization plan for these assets and has allocated funds in the recent approved budget for restructuring of these assets in order to utilize them in future. Management believes that these assets have the ability to provide future economic benefits to the Group and accordingly carrying amount of such assets will not exceed their recoverable amounts as of December 31, 2020.
- 3- Note 13 of these condensed consolidated interim financial statements which states that the Company has made an announcement on Tadawul for filling a law suit against Ex-Chief Executive Office (CEO) and Board Member of the Company.

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March 2 , 2021
18 Rajab 1442H

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020

	Note	December 31, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
ASSETS			
Non-current assets			
Property, plant and equipment	4	580,723,996	620,330,466
Intangible assets		15,614,512	16,859,361
Investment in an associate		22,272,588	21,252,673
Total non-current assets		618,611,096	658,442,500
Current assets			
Inventories		108,051,709	89,411,044
Trade receivables	5	116,433,480	137,972,465
Advances, prepayments and other assets		19,387,242	37,961,932
Cash and cash equivalents		15,221,182	11,959,334
Total current assets		259,093,613	277,304,775
TOTAL ASSETS		877,704,709	935,747,275
EQUITY AND LIABILITIES			
Equity			
Share capital	1	92,000,000	92,000,000
Statutory reserve		329,858	-
Other reserves		(6,136,492)	(7,475,688)
Retained earnings /(accumulated losses)		2,968,719	(11,801,606)
Equity attributable to the shareholders of the Company		89,162,085	72,722,706
Non-controlling interest		1,443,172	1,222,385
Total equity		90,605,257	73,945,091
LIABILITIES			
Non-current liabilities			
Medium and long term loans	6	366,241,351	358,824,347
Employees' end of service benefits		18,017,806	19,828,157
Lease liabilities – non current portion		7,078,768	7,569,483
Total non-current liabilities		391,337,925	386,221,987
Current liabilities			
Short-term loans	6	119,122,326	140,022,579
Medium and long term loans – current portion	6	151,284,922	206,621,768
Trade payables		67,265,370	69,607,261
Accrued expenses and other liabilities		42,409,367	42,594,780
Provision for zakat		14,226,861	16,208,696
Lease liabilities – current portion		1,452,681	525,113
Total current liabilities		395,761,527	475,580,197
Total liabilities		787,099,452	861,802,184
TOTAL EQUITY AND LIABILITIES		877,704,709	935,747,275

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on March 1, 2021.


Khalid Walid Abo Hana
Chief Financial Officer


Yousseri Abdel Hamid Abdel
Aziz El Bishry
Chief Executive Officer


Fahad Mohammad Al Dawood
Chairman

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

SAUDI PAPER MANUFACTURING COMPANY

(A SAUDI JOINT STOCK COMPANY)

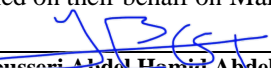
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS PERIOD AND YEAR ENDED DECEMBER 31, 2020

	Note	From Oct 1 to December 31		From January 1 to December 31	
		2020 (Un-audited) SR	2019 (Un-audited) SR	2020 (Un-audited) SR	2019 (Audited) SR
Revenue	9	119,253,954	128,387,913	532,090,559	527,126,249
Cost of revenue		(90,845,589)	(101,900,239)	(383,419,112)	(428,126,833)
Gross profit		28,408,365	26,487,674	148,671,447	98,999,416
General and administrative expenses		(9,121,296)	(12,038,175)	(40,782,461)	(47,650,732)
Selling and distribution expenses		(9,542,133)	(10,488,916)	(49,048,802)	(52,202,367)
Reversal / (allowance) for impairment of trade receivables	5	3,640,971	(8,937,627)	2,845,115	31,392,614
Operating profit (loss)		13,385,907	(4,977,044)	61,685,299	30,538,931
Finance charges	6,9	(7,681,436)	(3,328,641)	(33,516,919)	(42,732,486)
Share in profit of an associate		1,135,054	900,501	3,619,915	3,070,501
Other expenses, net	8	(3,531,117)	(1,769,656)	(12,078,060)	(9,952,374)
Net profit (loss) before zakat		3,308,408	(9,174,840)	19,710,235	(19,075,428)
Zakat		3,109,903	(2,098,371)	(4,051,877)	(8,393,483)
Net profit (loss) for the period / year		6,418,311	(11,273,211)	15,658,358	(27,468,911)
Other comprehensive (loss) income					
<i>Item that may be reclassified to profit or loss</i>					
Exchange differences on translation of foreign operations and others		(190,265)	(1,304,950)	(1,064,291)	(85,819)
<i>Item that will not be reclassified to profit or loss</i>					
Remeasurement gain (loss) on employees' end of service benefits		2,339,559	(2,832,782)	2,339,559	(2,832,782)
Change in fair value of equity investments through OCI		-	-	-	(1,067,062)
Other comprehensive income (loss) for the period / year		2,149,294	(4,137,732)	1,275,268	(3,985,663)
Total comprehensive income (loss) for the period / year		8,567,605	(15,410,943)	16,933,626	(31,454,574)
Net profit (loss) attributable to:					
Shareholders of the Company		6,236,455	(11,387,410)	15,100,183	(27,883,310)
Non-controlling interest		181,856	114,199	558,175	414,399
Net profit (loss) for the period / year		6,418,311	(11,273,211)	15,658,358	(27,468,911)
Total comprehensive income (loss) attributable to:					
Shareholders of the Company		8,394,559	(10,907,438)	16,439,379	(27,251,269)
Non-controlling interest		173,046	(4,503,505)	494,247	(4,203,305)
Total comprehensive income (loss) for the period / year		8,567,605	(15,410,943)	16,933,626	(31,454,574)
Earnings / (loss) per share (SR) attributable to shareholders of the company					
Basic and diluted earnings (loss) per share	10	0.68	(1.24)	1.64	(3.03)

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on March 1, 2021.


Khalid Walid Abo Hana
Chief Financial Officer


Yousseri Abdel Hamid Abdel
Aziz El Bishry
Chief Executive Officer


Fahad Mohammad Al Dawood
Chairman

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

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

	Equity attributable to the shareholders of the Company						Total SR
	Share capital SR	Statutory reserve SR	Other reserves SR	Retained earnings /accumulated losses SR	Total SR	Non- controlling interest SR	
As at January 1, 2019 – (audited) as previously stated	245,000,000	-	(8,107,729)	(103,865,781)	133,026,490	5,425,690	138,452,180
Restatement of property, plant and equipment	-	-	-	(33,052,515)	(33,052,515)	-	(33,052,515)
As at January 1, 2019 - as restated	245,000,000	-	(8,107,729)	(136,918,296)	99,973,975	5,425,690	105,399,665
Net (loss) / profit for the year	-	-	-	(27,883,310)	(27,883,310)	414,399	(27,468,911)
Other comprehensive income (loss) for the year	-	-	632,041	-	632,041	(4,617,704)	(3,985,663)
Total comprehensive income (loss) for the year	-	-	632,041	(27,883,310)	(27,251,269)	(4,203,305)	(31,454,574)
Capital reduction (note 1)	(153,000,000)	-	-	153,000,000	-	-	-
As at December 31, 2019 (audited)	<u>92,000,000</u>	<u>-</u>	<u>(7,475,688)</u>	<u>(11,801,606)</u>	<u>72,722,706</u>	<u>1,222,385</u>	<u>73,945,091</u>
As at January 1, 2020 - (audited)	92,000,000	-	(7,475,688)	(11,801,606)	72,722,706	1,222,385	73,945,091
Net profit for the year	-	-	-	15,100,183	15,100,183	558,175	15,658,358
Other comprehensive income (loss) for the year	-	-	1,339,196	-	1,339,196	(63,928)	1,275,268
Total comprehensive income for the year	-	-	1,339,196	15,100,183	16,439,379	494,247	16,933,626
Transfer to statutory reserve	-	329,858	-	(329,858)	-	-	-
Dividend paid	-	-	-	-	-	(273,460)	(273,460)
As at December 31, 2020 (un-audited)	<u>92,000,000</u>	<u>329,858</u>	<u>(6,136,492)</u>	<u>2,968,719</u>	<u>89,162,085</u>	<u>1,443,172</u>	<u>90,605,257</u>

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on March 1, 2021.


Khalid Waleed Abo Hana
Chief Financial Officer


Yousseri Abdel Hamid Abdel
Aziz El Bishry
Chief Executive Officer


Fahad Mohammad Al Dawood
Chairman

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

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020


	December 31, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
Cash flow from operating activities		
Net profit / (loss) for the year	15,658,358	(27,468,911)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	53,114,266	50,317,043
Impairment loss on property, plant and equipment	1,575,300	3,223,329
Reversal for impairment of trade receivables	(2,845,115)	(31,392,614)
Allowance for slow moving inventories	1,144,786	-
Finance charges	33,516,919	42,732,486
Provision against other receivables	13,654,067	-
Zakat expense	4,051,877	8,393,483
Amortization of intangible assets	1,487,628	1,475,488
Share in profit of an associate	(3,619,915)	(3,070,501)
Gain on sale of property, plant and equipment	(363,927)	(1,215,656)
Loss on disposal of a subsidiary	-	3,237,232
Provision for employees' end of service benefits	2,850,064	3,750,047
	120,224,308	49,981,426
<i>Changes in operating assets and liabilities:</i>		
Trade receivables	24,384,100	56,616,171
Inventories	(19,785,451)	(14,418,772)
Advances, prepayments and other assets	4,076,310	25,028,333
Trade payables	(3,183,801)	(16,869,535)
Accrued expenses and other liabilities	(185,413)	(21,189,145)
Cash generated from operating activities	125,530,053	79,148,478
Finance cost paid	(31,087,930)	(38,777,918)
Zakat paid	(6,033,712)	-
Employees' end of service benefits paid	(2,320,856)	(2,296,779)
Net cash generated from operating activities	86,087,555	38,073,781
Cash flow from investing activities		
Purchase of property, plant and equipment	(12,774,543)	(11,353,825)
Dividend received from an associate	2,600,000	1,560,000
Purchase of intangible assets	(242,779)	-
Proceeds from disposal of property, plant and equipment	526,566	1,216,453
Net cash flows used in investing activities	(9,890,756)	(8,577,372)
Cash flow from financing activities		
Lease payments	(895,400)	(903,200)
Change in short term loans, net	3,574,994	5,740,290
Change in medium and long term loans, net	(74,516,653)	(45,133,277)
Dividend paid to non controlling interest	(273,460)	-
Net cash used in financing activities	(72,110,519)	(40,296,187)
Net change in cash and cash equivalents	4,086,280	(10,799,778)
Cash and cash equivalents at the beginning of the year	11,959,334	22,844,638
Effect of exchange rate fluctuations	(824,432)	(85,526)
Cash and cash equivalents at the end of the year	15,221,182	11,959,334

Cash flow supplemental information

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These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on March 1, 2021.


Khalid Walid Abo Hana
Chief Financial Officer


Yousseri Abdel Hamid Abdel
Aziz El Bishry
Chief Executive Officer


Fahad Mohamad Al Dawood
Chairman

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

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Paper Manufacturing Company (“the Company”) is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 2050028141 issued in Dammam on Muharram 10, 1415H (June 20, 1994). The Company’s share capital is SR 92 million divided into 9.2 million shares of SR 10 each.

The principal activities of the Company and its subsidiaries (the “Group”), each of which operates under individual commercial registration, are to manufacture tissue paper rolls, convert tissue paper rolls into facial, kitchen and toilet tissue papers and collect, sort, transport and press waste papers.

The Company’s registered office is P.O. Box 2598, Unit number 2, Dammam 34326-7169, the Kingdom of Saudi Arabia.

The shareholders in their extraordinary general meeting held on November 4, 2019 approved recommendation of the Board of Directors of the Company to reduce the share capital of the Company from SR 245,000,000 to SR 92,000,000 for the purpose of restructuring of the share capital of the Company to absorb the accumulated losses of the Company and support its future growth. As a result, total number of shares of the Company was reduced from 24,500,000 to 9,200,000 by way of cancellation of shares and the capital was accordingly reduced to SR 92 million. Following the capital reduction, the Board recommended to increase the share capital of the Company through right issue by SR 150 million in order to strengthen the financial position of the Group and to improve liquidity and working capital needs. On April 28, 2020, the Board of the Directors of the Company resolved to adjust their previous recommendation on increase in share capital, whereby it was agreed to increase the share capital by SR 100 million instead of SR 150 million by way of right issue. Subsequent to the year end, the Company increased its share capital through right issue by SR 100 million by offering 10 million shares which were fully subscribed.

These condensed consolidated interim financial statements which states that the current liabilities of the Group exceeded its current assets by SR 136.7 million (December 31, 2019: SR 198.3 million) mainly on account of short term loans and current portion of medium and long term loans amounting to SR 119 million and SR 151.2 million respectively (December 31, 2019: SR 140 million and SR 206.6 million respectively). Additionally, the group was in breach of its loans financial covenants and in default on repayment due for its long term loans by SR 4 million as of December 31, 2020 (December 31, 2019: SR 19.9 million), which is rescheduled subsequent to year end. Management believes that the Group will be successful in restructuring of its loans, and avail new ones as and when needed revolving its short term loans as per its past practice and resolving the breach in the near future. Further, subsequent to the year end, the Company has increased its share capital by SR 100 million through right issue. Accordingly, these condensed consolidated interim financial statements are prepared on going concern basis and the loans are continued to be classified as per their original terms of repayment.

1.1 Structure of the group

These condensed consolidated interim financial statements include the financial statements of the Company and its subsidiaries as listed below:

Subsidiary	Country of incorporation	Effective ownership	
		December 2020	December 2019
Saudi Recycling Company	Saudi Arabia	100%	100%
Saudi Paper Converting Company	Saudi Arabia	100%	100%
Saudi Investment and Industrial Development Company	Saudi Arabia	100%	100%
Al Madar Paper Trading (Al Madar)	UAE	100%	100%
Al Madar Paper Trading	Morocco	100%	100%
Al Madar Paper Trading	Jordan	100%	100%
Saudi Paper Converting Company Jordan	Jordan	100%	100%
Al Madar Paper	Algeria	100%	100%
Al - Juthoor Paper Tissue Manufacturing Plant	Kuwait	85%	85%

During the year ended December 31, 2019, based on a “promise to sell agreement” the Group sold one of its subsidiary, Morocco Paper Manufacturing Company (MPMC). The balance receivable against the sale amounting to SR 13.6 million is presented under advances, prepayments and other assets. During the year ended December 31, 2020, the Company has provided SR 13.6 million against this receivable balance based on the recommendation of Board of Director of the Company. Management of the Company has filed a law suit to cancel the sale agreement and made a precautionary seizure of the factory. As of the date of approval of these condensed consolidated interim financial statements, the legal procedures were still in progress.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The condensed consolidated interim financial statements for the three months' period and year ended December 31, 2020 have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. The accompanying condensed consolidated interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and hence should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2019.

2.2 Preparation of the condensed consolidated interim financial statements

These condensed consolidated interim financial statements are prepared under the historical cost convention, except where International Financial Reporting Standards (IFRS) require other measurement basis. The principal accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019.

The preparation of these condensed consolidated interim financial statements in conformity with IFRS required management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts in the condensed consolidated interim financial statements. These critical accounting judgements and key sources of estimations were the same as those described in the last annual financial statements.

2.3 Functional and presentation currency

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies applied by the group.

3.1 Basis of consolidation

These condensed consolidated interim financial statements incorporate the financial statements of the "Group" as detailed in note 1.1. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of consolidation (Continued)

Condensed consolidated interim statement of profit or loss and each component of other comprehensive income are attributed to the shareholders of the Company and non- controlling interest. Total comprehensive income of subsidiaries is wholly attributed to the shareholders of the Company except the comprehensive income of Al – Juthoor subsidiary.

When necessary, adjustments are made to the condensed consolidated interim financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3.2 Changes in significant accounting policies

New standards, Amendments to standards and Interpretations

There are no new standards issued, however, there are number of amendments to standards which are effective from January 1, 2020 and has been explained in Group’s annual Consolidated Financial Statements, but they do not have a material effect on the Group’s Condensed Consolidated Interim Financial Statements.

4 PROPERTY, PLANT AND EQUIPMENT

4.1 The Group acquired fixed assets during the year amounting to SR 15.5 million including SR 2.7 million for right of use assets. (December 31, 2019: SR 20 million including SR 8.65 million for right of use assets).

Property, plant and equipment include the following right of use assets relate to Group’s leases:

	December 31, 2020 (Un-audited) SR	December 31, 2019 (audited) SR
Right- of use assets, net		
Lands	7,159,651	7,905,098
Buildings	1,602,794	-
Office equipments	510,247	-
	9,272,692	7,905,098

4.2 Impairment on working plant and machinery

The management engaged a third party consultant for impairment assessment of its property, plant and equipment as at December 31, 2020 based on which 0.95 million impairment loss was recognised during the year ended December 31, 2020 (December 31, 2019: nil). The assessment includes assumptions related to future sales volume, prices, annual growth rates, terminal growth rates, net realizeable value, discount rates and other related factors. The outcome of these assumptions is highly dependent on the success of future operations and market conditions as estimated by management and achieving its plans in future. Management is confident of its ability to meet its future business plan and believes that the carrying value of property, plant and equipment as of December 31, 2020 will not exceed their recoverable amounts.

4.3 Impairment of unutilized plant and machinery

The management engaged a third party consultant for the impairment assessment of certain unutilized assets of property, plant and equipment as of December 31, 2020, amounting to SR 29.46 million (December 31, 2019: SR 43.7 million). Based on the results of this assessment, management has concluded that impairment amounting SR 0.6 million was required for these unutilized assets as of December 31, 2020 (December 31, 2019: SR 3.2 million). The assessment includes assumptions related to estimated selling price in ordinary course of business, estimated cost of completion and estimated cost necessary to make the sales of these assets. The outcome of these assumptions is highly dependent on market conditions as estimated by management and achieving its plans in future. Management is currently assessing the alternative utilization plan for these assets and has allocated funds in the recent approved budget for restructuring of these assets in order to utilize them in future. Management believes that these assets have the ability to provide future economic benefits to the Group and accordingly carrying amount of such assets will not exceed their recoverable amounts as of December 31, 2020.

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2020****5. TRADE RECEIVABLES**

		December 31, 2020 (Un-audited)	December 31, 2019 (Audited)
	Note	SR	SR
Trade receivables		217,268,482	241,652,582
Allowance for impairment of trade receivables	5.1	(100,835,002)	(103,680,117)
		116,433,480	137,972,465

5.1 The movement in allowance for impairment of trade receivables is as follows:

		December 31, 2020 (Un-audited)	December 31, 2019 (Audited)
		SR	SR
Opening balance		103,680,117	138,731,315
Write offs		-	(3,658,584)
Reversals during the year		(2,845,115)	(31,392,614)
		100,835,002	103,680,117

6. LOANS**a) Medium and long-term loans**

		December 31, 2020 (Un-audited)	December 31, 2019 (Audited)
	Note	SR	SR
Saudi Industrial Development Fund ("SIDF") loans	6.1	27,632,000	39,272,452
Commercial bank loans	6.2	489,894,273	526,173,663
		517,526,273	565,446,115
Current maturity of medium and long term loans		(151,284,922)	(206,621,768)
		366,241,351	358,824,347

The Group has not complied with the covenant requirements of maintaining certain financial ratios of some of its loan agreements.

These bank loans are secured against promissory notes amounting to SR 756.5 million (December 31, 2019: SR 729.3 million).

6.1 SIDF loans

These represent loans obtained from SIDF by the Company and one of its Saudi Arabian subsidiary. The covenants of the loan agreements require the Company and such subsidiary to maintain certain levels of financial condition, place limitations on dividends distributions and on annual capital and rental expenditures. (Note 1)

The loans do not bear finance charges, however, an upfront fee is charged on the loan and these are secured by mortgaged on property, plant and equipment of the Company and the subsidiary equal to the carrying amount of the loan.

6.2 Commercial bank loans

The Group has obtained loan facilities from various commercial banks. These loans are mainly denominated in Saudi Riyals which generally bear financial charges based on prevailing market rates. The aggregate maturities of the loans outstanding at December 31, 2020, based on their respective repayment schedules, are spread in 2020 through 2026.

b) Short term loans

Short term loans are obtained from various commercial banks and bear financial charges at the prevailing market rates which are based on inter-bank offer rate.

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FOR THE YEAR ENDED DECEMBER 31, 2020

7. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The related parties consist of subsidiaries, affiliates and Board of Directors and key management personnel of the Group. In the ordinary course of business, the Group transacts with its related parties. Such transactions relate to services rendered and received and expenses incurred on behalf of related parties. The transactions are dealt with on mutually agreed terms and the terms and conditions on these transactions are approved by the Group's management.

Key management personnel compensation

	December 31, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
Short-term employees benefits	5,088,075	7,176,200
Employees' end of service benefits	259,565	288,975
	5,347,640	7,465,175

8. OTHER EXPENSES, NET

Other expenses for year ended December 31, 2020 include SR 13.65 million provision against receivables from sale of a subsidiary, Morocco Paper Manufacturing Company (MPMC) (note 1).

9. OPERATING SEGMENTS

a. Basis for segmentation

The Group has the following strategic divisions, which are its reportable segments. These divisions offer different products and services, and are managed separately because they require different technology and marketing strategies.

The following summary describes the operations of each reportable segment that met the quantitative thresholds for reportable segments in 2020 and 2019.

Reportable segments	Operations
Manufacturing	Buying, manufacturing and distributing pulp and paper
Trading, transport and other	Collecting, sorting, transporting and pressing waste papers

The Group's Chief Executive Officer reviews the internal management reports of each division at least quarterly.

There are varying levels of integration between the both the segments. This integration includes transfers of recycled raw materials and shared distribution services respectively.

b. Information about reportable segments

Information related to each reportable segment is set out below. Segment profit /(loss) before Zakat is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

Year ended December 31, 2020 (Un-audited)	Reportable segments		
	Manufacturing SR	Trading and others SR	Total SR
Segment revenue	636,494,233	42,106,022	678,600,255
Inter-segment revenue	(131,758,935)	(14,750,761)	(146,509,696)
External revenue	504,735,298	27,355,261	532,090,559
Net profit (loss) before zakat	31,703,681	(11,993,446)	19,710,235
Finance charges	32,149,265	1,367,654	33,516,919
Depreciation and amortization	53,047,357	1,554,536	54,601,893
Segment assets	838,255,737	39,448,972	877,704,709
Segment liabilities	741,740,150	45,359,302	787,099,452

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FOR THE YEAR ENDED DECEMBER 31, 2020

9. OPERATING SEGMENTS (Continued)

b. Information about reportable segments (Continued)

Year ended December 31, 2019 (Audited)	Reportable segments		
	Manufacturing SR	Trading, transport and others SR	Total SR
Segment revenue	635,177,997	42,536,552	677,714,549
Inter-segment revenue	(129,787,983)	(20,800,317)	(150,588,300)
External revenue	505,390,014	21,736,235	527,126,249
Net loss before zakat	(13,852,676)	(5,222,752)	(19,075,428)
Finance charges	41,291,484	1,441,002	42,732,486
Depreciation and amortization	49,765,812	2,026,719	51,792,531
Segment assets	883,487,379	52,259,896	935,747,275
Segment liabilities	820,556,846	41,245,338	861,802,184

Three months period ended December 31, 2020 (Un-audited)	Reportable segments		
	Manufacturing SR	Trading and others SR	Total SR
Segment revenue	137,736,756	13,579,741	151,316,497
Inter-segment revenue	(27,503,048)	(4,559,495)	(32,062,543)
External revenue	110,233,708	9,020,246	119,253,954
Net profit (loss) before zakat	5,329,998	(2,021,590)	3,308,408
Finance charges	7,334,859	346,577	7,681,436
Depreciation and amortization	15,883,351	432,391	16,315,742

Three months period ended December 31, 2019 (Un-audited)	Reportable segments		
	Manufacturing SR	Trading, transport and others SR	Total SR
Segment revenue	155,613,047	8,890,896	164,503,943
Inter-segment revenue	(31,774,774)	(4,341,256)	(36,116,030)
External revenue	123,838,273	4,549,640	128,387,913
Net loss before zakat	(6,006,952)	(3,167,888)	(9,174,840)
Finance charges	2,960,754	367,887	3,328,641
Depreciation and amortization	12,565,992	503,154	13,069,146

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9. OPERATING SEGMENTS (Continued)

c. Geographic information

The business of the Group is managed on a worldwide basis. However, the main operations are settled in Kingdom of Saudi Arabia, certain Gulf Cooperation Council (GCC) countries and certain other countries.

The geographic information analyses the Group's revenue and non-current assets by the Company's country of domicile and other countries.

For the year ended

	December 31, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
- Revenue		
Saudi Arabia	477,834,809	470,623,988
GCC countries	37,346,405	40,102,612
Other countries	16,909,345	16,399,649
Consolidated revenue	532,090,559	527,126,249

For the three months period ended

	December 31, 2020 (Un-audited) SR	December 31, 2019 (Un-audited) SR
- Revenue		
Saudi Arabia	103,290,185	114,425,577
GCC countries	10,541,487	10,169,404
Other countries	5,422,282	3,792,932
Consolidated revenue	119,253,954	128,387,913

As of year ended

	December 31, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
- Non-current assets		
Saudi Arabia	567,425,239	612,401,517
GCC countries	39,575,894	35,140,102
Other countries	11,609,963	10,900,881
Consolidated non-current assets	618,611,096	658,442,500

10. EARNINGS / (LOSS) PER SHARE

Basic earnings / (loss) per share is calculated by dividing the net profit / (loss) attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Earnings (loss) per share are represented as follows:

	From October 1 to December 31 2020 (Un-audited)	2019 (Un-audited)	From January 1 to December 31 2020 (Un-audited)	2019 (Audited)
Net profit (loss) for the year (SR)	6,236,455	(11,387,410)	15,100,183	(27,883,310)
Weighted average number of outstanding shares	9,200,000	9,200,000	9,200,000	9,200,000
Basic/ Dilutive earnings (loss) per share (SR)	0.68	(1.24)	1.64	(3.03)

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FOR THE YEAR ENDED DECEMBER 31, 2020

11. SUPPLEMENTAL CASHFLOW INFORMATION

	December 31, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
Right of use assets	2,711,051	8,091,460
Receivable on disposal of a subsidiary previously classified as held for sale	-	(13,654,065)

12. CONTINGENCIES AND COMMITMENTS

- As of December 31, 2020, the Group was contingently liable for letter of credits and bank guarantees issued in the normal course of the business amounting to SR 25.3 million (December 31, 2019: SR 14.9 million) and SR 0.53 million (December 31, 2019: SR 0.53 million) respectively.
- During the year, the Company has received assessments from General Authority of Zakat and Tax (GAZT) for the years 2014 to 2018 claiming additional liability amounting to SR 42.4 million. The Company has settled the assessment claim of SR 15.5 million related to 2014 by SR 0.48 million and received the final assessment. The management has filed appeal against the remaining assessments for the year 2015 to 2018 amounting to SR 26.9 million. The management believes that the provision recognised against aforementioned assessments is adequate and no further provision is required as at year end date.

13. SIGNIFICANT EVENT

- In March 2020, the Kingdom of Saudi Arabia announced a global pandemic due to the novel coronavirus (COVID-19). The impact of outbreak and long hours of curfew has caused a significant change in business activities and increase in economy uncertainty. The Group proactively took a range of operational preventive measures in response to the situation by modifying certain operations to comply with health and safety guidelines to protect employees, customers and suppliers, secure smooth supply chain process to avoid any business interruption benefiting from all supports announced by the Government for the private sectors.

Management believes that the Covid-19 pandemic had limited impact on the Group reported results for the year December 2020 due to the steps taken by the company and the diversification of its portfolio. The company will continue to assess this situation moving forward.

- On January 31, 2021, the Company announced on Tadawul that it has filed a lawsuit in the court of law against Ex-Board Member and the CEO for financial and administrative violations with an estimated value of SR 40.95 million. The allegations relate to sale of subsidiary in Morocco, cancellation of debt, extending large credit facilities to a small client and other financial and administrative violations.

The case is still pending in the court of law as of the date of condensed consolidated interim financial statements.

14. COMPARATIVE FIGURES

Certain figures of the comparative period /year have been reclassified in order to conform with presentation in current period /year.

15. APPROVAL OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved by the Board of Directors of the Company and authorized for issue on March 1, 2021 corresponding to 17 Rajab 1442H.