

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER

(Saudi Closed Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2012

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 December 31, 2012, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, and notes 1 to 23 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. 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 December 31, 2012, and the consolidated results of its operations and its consolidated cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia and appropriate to the nature of the Group and comply with the relevant provisions of the Regulations for Companies and the bye-laws of the Company as these relate to the preparation and presentation of these consolidated financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.

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

10 Rabi'II, 1434
February 20, 2013

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(Saudi Closed Joint Stock Company)
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2012
(Expressed in Saudi Riyals)

	Note	2012	2011
ASSETS			
Current assets			
Cash and cash equivalents		19,965,414	34,430,555
Accounts receivable-net	4	181,813,137	203,619,752
Inventories- net	5	129,020,693	116,562,526
Prepayments and receivables	6	93,867,397	75,641,798
Due from a related party	17	73,238,563	99,000,000
Total current assets		497,905,204	529,254,631
Non-current assets			
Property, plant and equipment	8	920,331,993	918,013,070
Total non-current assets		920,331,993	918,013,070
TOTAL ASSETS		1,418,237,197	1,447,267,701
LIABILITIES AND EQUITY			
Current liabilities			
Short-term loans	9	284,189,836	141,225,547
Current portion of long-term loans	9	139,539,417	256,445,832
Notes Payable		3,316,870	1,804,995
Accounts payable		40,174,074	30,845,975
Due to related parties	17	7,729,102	-
Accruals and payables	10	23,206,663	21,571,302
Total current liabilities		498,155,962	451,893,651
Non-current liabilities			
Long-term loans	9	439,841,679	553,641,096
End-of-service indemnities	11	10,726,723	10,459,177
Total non-current liabilities		450,568,402	564,100,273
TOTAL LIABILITIES		948,724,364	1,015,993,924
Equity			
Share capital	12	400,000,000	360,000,000
Statutory reserve	13	31,905,823	28,123,133
Retained earnings		37,563,286	18,519,069
Shareholders' accounts		-	24,589,804
Equity attributable to the parent		469,469,109	431,232,006
Non-controlling interest		43,724	41,771
Total equity		469,512,833	431,273,777
TOTAL LIABILITIES AND EQUITY		1,418,237,197	1,447,267,701

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 INCOME

YEAR ENDED DECEMBER 31, 2012

(Expressed in Saudi Riyals)

	Note	2012	2011
Sales		653,577,351	650,835,291
Cost of sales		(509,471,187)	(475,900,633)
Gross profit		144,106,164	174,934,658
Selling and marketing expenses	14	(38,981,392)	(30,902,614)
General and administrative expenses	15	(43,030,270)	(33,180,622)
Operating income		62,094,502	110,851,422
Finance charges		(25,930,092)	(25,999,673)
Share of loss from a joint project	7	-	(3,908,552)
Gain from sale of an investment	7	-	366,461
Other income		2,139,740	5,274,531
Net Income before zakat and income tax		38,304,150	86,584,189
Zakat and income tax	16	(476,722)	(795,166)
NET INCOME		37,827,428	85,789,023
NET INCOME ATTRIBUTABLE TO:			
Shareholders' of the parent		37,826,907	85,747,824
Non-controlling interest		521	41,199
		37,827,428	85,789,023
Earnings per share from net income		95	214
Earnings per share from continuing operations		153	274
Earnings per share from non-operating operations		(58)	(60)

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
YEAR ENDED DECEMBER 31, 2012
(Expressed in Saudi Riyals)

	Share capital	Proposed increase in share capital	Statutory reserve	Retained earnings	Shareholders' accounts	Non-controlling interest	Total
January 01, 2011	220,000,000	100,000,000	19,548,351	6,346,027	(2,857,696)	-	343,036,682
Net income for 2011	-	-	-	85,747,824	-	41,199	85,789,023
Transfer to statutory reserve	-	-	8,574,782	(8,574,782)	-	-	-
Transfers to share capital (see note 12)	140,000,000	(100,000,000)	-	(40,000,000)	-	-	-
Transfer to shareholders-dividends	-	-	-	(25,000,000)	25,000,000	-	-
Movement during the year	-	-	-	-	2,447,500	572	2,448,072
December 31, 2011	360,000,000	-	28,123,133	18,519,069	24,589,804	41,771	431,273,777
Net income for 2012	-	-	-	37,826,907	-	521	37,827,428
Transfer to statutory reserve	-	-	3,782,690	(3,782,690)	-	-	-
Transfers to share capital (see note 12)	40,000,000	-	-	(15,000,000)	(25,000,000)	-	-
Movement during the year	-	-	-	-	410,196	1,432	411,628
December 31, 2012	400,000,000	-	31,905,823	37,563,286	-	43,724	469,512,833

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
YEAR ENDED DECEMBER 31, 2012
(Expressed in Saudi Riyals)

	2012	2011
OPERATING ACTIVITIES		
Net income before zakat and income tax	38,304,150	86,584,189
Adjustments for:		
Depreciation	69,269,324	56,713,352
Gains from sale of property and equipment	(213,052)	(440,527)
Provision for doubtful accounts	2,559,168	-
Provision for slow moving inventory	3,000,000	3,000,000
Gain from sale of investment	-	(366,461)
Share of loss from joint project	-	3,283,154
End-of-service indemnities	3,772,002	2,508,003
Changes in operating assets and liabilities:		
Accounts receivable – net	19,247,447	(86,527,113)
Inventories – net	(64,110,491)	(14,477,849)
Prepayments and receivables	(18,225,599)	(15,509,038)
Due from a related party	25,761,437	-
Accounts payable	9,328,099	(1,033,848)
Accruals and payables	2,110,107	7,000,006
Cash from operations	90,802,592	40,733,868
Zakat Paid	(951,468)	(1,040,954)
End-of-service indemnities paid	(1,563,666)	(766,565)
Net cash from operating activities	88,287,458	38,926,349
INVESTING ACTIVITIES		
Investment in companies	-	(4,121,393)
Purchase of property and equipment	(25,703,370)	(67,683,111)
Proceeds from sale of property and equipment	2,980,499	1,569,106
Net cash (used in) investing activities	(22,722,871)	(70,235,398)
FINANCING ACTIVITIES		
Short-term loans and notes payable	144,476,164	(84,375,801)
(Repayment)/proceeds of long-term loans	(230,705,832)	129,713,588
Shareholders' accounts	6,198,508	2,447,500
Non-controlling interest	1,432	572
Net cash (used in)/from financing activities	(80,029,728)	47,785,859
Net change in cash and cash equivalents	(14,465,141)	16,476,810
Cash and cash equivalents, January 1	34,430,555	17,953,745
CASH AND CASH EQUIVALENTS, DECEMBER 31	19,965,414	34,430,555

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

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
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CONSOLIDATED STATEMENT OF CASH FLOWS
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NON- CASH TRANSACTIONS

	2012	2011
Transfer from retained earnings to share capital	15,000,000	40,000,000
Transfer from proposed capital to share capital	-	100,000,000
Transfer from shareholders' account to due to related parties	7,729,102	-
Transfer from end of service to shareholders accounts	1,940,790	-
Transfer from shareholders' account to share capital	25,000,000	-
Property and equipment addition through inventory	48,652,324	39,175,444
Sale of investments at net book value to a related party	-	99,000,000
Transfer of investments to other receivables	-	3,562,500
Dividends transferred to the shareholders' accounts	-	25,000,000
Inventory written off during the year	5,481,758	2,810,666

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
YEAR ENDED DECEMBER 31, 2012
(Expressed 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 two Saudi Arabian subsidiaries and one British subsidiary.

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 has 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). In addition to that, the shareholders also resolved for an Initial Public Offering (IPO) and they have appointed various financial and other consultants to complete the process and file it with the Capital Market Authority.

Subsequently, the shareholders resolved on 21 Rabi 2 1433 (March 14, 2012) to increase the share capital by an amount of SR 40 million to be SR 400 million at the same shareholding percentages, through transfers from the shareholders' accounts and the retained earnings.

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 December 31. 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 year, 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 having a deficit balance.

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.

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2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

The accompanying 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 appropriate to the nature of the Company.

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 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. 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 "General and administrative 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 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.

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.

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(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 received.

(d) Goodwill

The purchase method of accounting is used to account for the acquisition of companies. 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 accompanying consolidated balance sheet. Goodwill is tested annually for impairment and carried at cost, net of any accumulated amortization and impairment losses, if any.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. 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 cabins	3-17%
Machinery and equipment	5-20%
Furniture and office fixtures	17-25%
Vehicles	20-25%

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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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.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group 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

Sales are recognized upon delivery of goods to customers. Other income is accounted for when earned. Dividend income from investments is recognized when the right to receive payment is established.

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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.

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 year-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.

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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, and borrowing facilities and other current liabilities. 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. 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 year end, as it has no financial instruments of which the fair value depends on a market price other than the investment in marketable securities which are carried at fair value.

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.

(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 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 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 financial assets and liabilities are not materially different from their carrying values.

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4. ACCOUNTS RECEIVABLE- NET

	2012	2011
Accounts receivable – trade	184,390,738	205,871,011
Less: Provision for doubtful accounts - net	(2,577,601)	(2,251,259)
	181,813,137	203,619,752

5. INVENTORIES - NET

	2012	2011
Spare parts and supplies, not available for sale	42,428,889	34,490,117
Raw materials	74,189,389	74,675,259
Finished goods	13,209,991	10,686,484
Less: Provision for slow moving inventories	(807,576)	(3,289,334)
	129,020,693	116,562,526

During the year, the Company wrote-off inventory amounting to SR 5,481,758 (2011: SR 2,810,666).

The spare parts inventory mainly relates to the Company's machinery and equipment which are expected to be used for more than one year.

During the year, the Company transferred part of its spare parts inventory amounting to SR 48,652,324 (2011: SR 39,175,444) to the property, plant and equipment as these are considered an integral part of the Company machinery and equipment and expected to be used for more than one year.

6. PREPAYMENTS AND RECEIVABLES

	2012	2011
General Authority of Water (note 18)	30,490,630	30,490,630
Societe Marociane De Recuperation Et De Recyclage	3,472,095	3,562,500
Middle East Environment Production Company	1,884,236	1,884,236
Advances to suppliers	36,023,323	25,563,761
Advances to employees	1,682,076	1,242,999
Prepaid expenses	8,490,274	9,007,810
Retentions	852,134	1,231,903
Others	10,972,629	2,657,959
	93,867,397	75,641,798

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7. INVESTMENT IN COMPANIES

The investment in companies as of December 31 were as follows:

Name of subsidiary	Place of Incorporation	% Held (directly and indirectly)	2012	2011
Investment in a joint project	Saudi Arabia	50%	-	-
Societe Marociane De Recuperation Et De Recyclage	Morocco	50%	-	-
MOL Fiber Company Limited	United Kingdom	51%	-	-
			-	-

The movement of investment in companies were as follows:

	2012	2011
Balance as of January 1	-	103,242,036
Share of income from a joint project – net	-	1,971,442
Additions	-	1,150,000
Dividends	-	(1,884,236)
Sales of investments	-	(98,633,539)
Movement during the year	-	3,596,791
Advance payment transferred to other receivable	-	(3,562,500)
Adjustment and impairment	-	(5,879,994)
	-	-

During 2011, the Group sold its investment in Societe Marociane De Recuperation Et De Recyclage at the net book value as of date of the sale and the related advance payment was transferred to the receivables along with the sale consideration. Also, the Group sold its investment in the joint project to a related party resulting in gains of SR 366,461.

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8. PROPERTY, PLANT AND EQUIPMENT

2012	January 1	Additions	Disposals/ adjustment	Transfers	December 31
Cost					
Land	59,319,884	-	-	-	59,319,884
Buildings and mobile cabinets	158,483,225	2,005,466	(1,470,005)	-	159,018,686
Machinery and equipment	907,218,389	14,101,607	(1,800)	48,652,324	969,970,520
Furniture and fixture	15,198,684	2,070,893	(7,540)	-	17,262,037
Motor vehicles	27,187,022	6,282,287	(876,822)	-	32,592,487
Capital work in progress	230,707	1,243,117	(1,185,072)	-	288,752
Total	1,167,637,911	25,703,370	(3,541,239)	48,652,324	1,238,452,366
Accumulated Depreciation					
Buildings and mobile cabinets	15,414,020	4,996,155	-	-	20,410,175
Machinery and equipment	204,285,564	58,836,423	(240)	-	263,121,747
Furniture and fixture	11,340,486	1,408,742	-	-	12,749,228
Motor vehicles	18,584,771	4,028,004	(773,552)	-	21,839,223
Total	249,624,841	69,269,324	(773,792)	-	318,120,373
Net book value	918,013,070				920,331,993

2011	January 1	Additions	Disposals	Transfers	December 31
Cost:					
Land	59,319,884	-	-	-	59,319,884
Buildings and mobile cabinets	156,146,028	2,339,033	(1,836)	-	158,483,225
Machinery and equipment	811,518,234	58,210,481	(1,685,770)	39,175,444	907,218,389
Furniture and fixture	12,974,307	2,232,237	(7,860)	-	15,198,684
Motor Vehicles	24,079,081	4,670,653	(1,562,712)	-	27,187,022
Capital work in progress	-	230,707	-	-	230,707
Total	1,064,037,534	67,683,111	(3,258,178)	39,175,444	1,167,637,911
Accumulated Depreciation:					
Land	-	-	-	-	-
Buildings and mobile Cabinets	11,188,329	4,225,691	-	-	15,414,020
Machinery and equipment	158,508,170	46,638,645	(861,251)	-	204,285,564
Furniture and fixture	9,978,069	1,365,002	(2,585)	-	11,340,486
Motor vehicles	15,366,520	4,484,014	(1,265,763)	-	18,584,771
Total	195,041,088	56,713,352	(2,129,599)	-	249,624,841
Net book value	868,996,446				918,013,070

Land includes a plot of land with a cost of SR 24.4 million (2011: SR 24.4 million) in the name of a related party who assigned the title is to the Group. Legal formalities to affect the transfer is currently in process.

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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's Development Fund (SIDF) as a first degree pledge, to Arab National Bank as a second degree pledge and to the Islamic Corporation for the Development of the Private Sector as a third degree pledge (see note 9).

During the year SR 48.6 million (2011: 39.2 million) were transferred from spare parts to plant and equipment.

9. LOANS AND BANK FACILITIES

Loans and bank facilities as of December 31 consist of the following:

	2012	2011
Short term loans – See (a) below	284,189,836	141,225,547
Long term loans		
Commercial Loans	354,581,096	563,026,928
Saudi Industrial Development Fund (SIDF) – see (b) below	224,800,000	247,060,000
	579,381,096	810,086,928
Less : current portion of Long term loans	(139,539,417)	(256,445,832)
	439,841,679	553,641,096

a) The Company 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 Company utilized SR 638.7 million as of December 31, 2012 (2011: SR 705.8 million). These facilities are secured by promissory note, personal guarantees by the shareholders and second class mortgage on the Company's factory. The facilities carried interest rate 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 2011 to partially finance the construction of the manufacturing facilities of which SR 225 million were utilized as of December 31, 2012 (2011: SR 247 million). The repayment of outstanding balance as of December 31, 2009 will be in unequal semiannual installments ending May 2017.

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.

On November 19, 2011, the Company approached the SIDF to reschedule the installments due in 2011. The SIDF approved the rescheduling and recalculated the installments.

c) These facilities agreements including the SIDF agreement have certain covenants which provide among other items restrictions in some ratios and require the bank's approval before dividends distribution. The Company did not comply with a financial covenant. However the SIDF will not take any action and accordingly loans balances were classified according to original terms of payment.

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Maturity

Long-term loans are repayable as follows:

Due date	2012	2011
2012	-	256,445,832
2013	139,539,417	210,372,750
2014	148,999,997	110,166,664
2015	100,041,682	100,041,682
2016	94,000,000	94,000,000
2017 and later	96,800,000	39,060,000
	579,381,096	810,086,928

10. ACCRUALS AND PAYABLES

	2012	2011
Financial charges	5,880,314	9,916,108
Salaries and Other payables	8,185,590	4,080,633
Transportation	4,387,173	2,966,586
Zakat and income tax (note 16)	259,351	734,097
Utilities	650,077	2,108,401
Others	3,844,158	1,765,477
	23,206,663	21,571,302

11. END-OF-SERVICE-INDEMNITIES

	2012	2011
January 1	10,459,177	8,717,739
Provision for the year	3,772,002	2,508,003
Transfer to shareholders' accounts	(1,940,790)	-
Payments during the year	(1,563,666)	(766,565)
December 31	10,726,723	10,459,177

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12. SHARE CAPITAL

The share capital, at the date of establishment of the Company in 2000 amounted to SR 60 million.

The shareholders resolved to increase share capital by SR 160 million in 2008, SR100 million in 2010 and SR 40 million in 2011 through transfers from shareholders' accounts and retained earnings respectively. Also the shareholders resolved to admit two shareholders through transfers of part of their interest in the Company to the admitted shareholders.

During 2012, the shareholders further resolved to increase the share capital by SR 40 million through transfer of SR 15 million from retained earnings and SR 25 million from shareholders' account.

The share capital of the Company as of December 31 2012 and 2011 was comprised of 400,000 and 360,000 shares respectively at par value SR 1,000 owned as follows:

Shareholder	Percentage of Ownership		Amount	Amount
	2012	2011	2012	2011
A.K Al-Muhaidib and Sons Company (AKMS)	35.32%	35.32%	141,280,000	127,152,000
Ibrahim Abdullah Abu Nayyan and Brothers Company	35.32%	35.32%	141,280,000	127,152,000
Abdullah A. Bin Al-Moammar	19.46%	19.46%	77,840,000	70,056,000
Emad Abdel Kader Al-Muhaidib	4.95%	4.95%	19,800,000	17,820,000
Abdulah Abdullah Abu Nayyan	4.95%	4.95%	19,800,000	17,820,000
	100.00%	100.00%	400,000,000	360,000,000

Legal formalities to effect these changes were approved by the Ministry of Commerce.

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.

14. SELLING AND MARKETING EXPENSES

	2012	2011
Salaries and related benefits	2,851,201	3,387,886
Transportation and shipping	27,777,382	23,236,001
Sales commissions	3,058,892	2,115,614
Bad debt expenses	2,559,168	-
Repairs and maintenance	1,180,125	1,218,749
Depreciation	413,119	301,030
Others	1,141,505	643,334
	38,981,392	30,902,614

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15. GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Salaries and related benefits	28,786,609	19,828,785
Depreciation	2,485,836	2,368,618
Professional fees	20,000	2,657,552
Repairs and maintenance	702,429	470,596
Communications	533,636	649,452
Travel expenses	609,855	1,092,378
Insurance expenses	895,629	553,835
Rent	100,738	376,980
Subscriptions	-	219,811
Commission	1,163	-
Feasibility study	-	994,780
Training	-	761,248
Stationary	291,084	444,876
Claims	2,415,450	-
Governmental fees	1,026,326	501,731
Expenses charged from shareholders'	185,965	-
Bank charges	498,162	665,703
Others	4,477,388	1,594,277
	43,030,270	33,180,622

16. ZAKAT AND INCOME TAX

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;

	2012	2011
Non-current assets	920,331,993	918,013,090
Non-current liabilities	450,568,402	564,100,273
Opening shareholders' equity	431,232,006	343,036,682
Net income before zakat	38,304,150	86,584,189

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b. Movement in zakat and income tax provision is as follows:

	2012	2011
January 1	734,097	979,885
Provision for the year	476,722	795,166
Paid during the year	(951,468)	(1,040,954)
December 31	259,351	734,097

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 the year, the DZIT reduced the claim amount to SR 3.8 million. The management is currently analyzing its options for further appeal.

Zakat declarations for the years 2009 to 2011 are under review by the DZIT.

17. RELATED PARTY MATTERS

a. Significant related party transactions during the years ended December 31 are as follows:

	2012	2011
Sale of investment	-	99,000,000

b. Due from a related party

	2012	2011
Beatona Company	73,238,563	99,000,000

c. Due to related parties

	2012	2011
Ibrahim Abdullah Abu Nayyan and Brothers Company	7,614,551	-
A.K Al-Muhaidib and Sons Company	114,551	-
	7,729,102	-

18. CLAIM

During 2008, the General Authority of Water (GAW) expropriated a lot of land and other premises that belonged to the Company and unfairly compensated the Company for SR 28.9 million. The Company contested the compensation and raised a claim amounting to the fair value of the lot. 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 is certain that the ultimate outcome will be in their favor and gains or losses will be recognized when the outcome of the claim is finally determined.

19. OPERATING LEASES

The Group has various operating lease agreements for which generally have a term of one year, principally related to some properties. Rental expenses relating to such agreements for the year ended December 31, 2012 amounted to SR 7,206,062 (2011: SR 4,801,863).

20. CONTINGENCIES AND COMMITMENTS

At December 31, 2012, the Group was currently liable for outstanding letters of credits of approximately SR 14,466,433 (2011: SR 27,820,360) issued in the normal course of the business.

21. 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 year ended as follows (SR 000):

2012	Manufacturing Segment	Trading Segment	Elimination	Total
Assets	1,367,376	108,605	(57,744)	1,418,237
Liabilities	897,906	80,455	(29,637)	948,724
Sales	605,969	258,025	(210,416)	653,578
Net income to the equity shareholders	37,827	7,662	(7,662)	37,827

2011	Manufacturing Segment	Trading Segment	Elimination	Total
Assets	1,403,328	83,839	(39,899)	1,447,268
Liabilities	972,098	54,554	(10,658)	1,015,994
Sales	594,940	275,560	(219,665)	650,835
Net income to the equity shareholders	85,748	28,383	(28,383)	85,748

22. FAIR VALUE

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

23. RECLASSIFICATION

Certain figures for 2011 have been reclassified to conform to the presentation for the current year.