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, 2013

Deloitte.

Deloitte & Touche
Bakr Abulkhair & Co
Public Accountants
P.O. Box 442
Jeddah 21411
Kingdom of Saudi Arabia

Tel: +966 (0) 12 657 2725
Fax: +966 (0) 12 657 2722
www.deloitte.com

License No. 96
Head Office: Riyadh

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, 2013, 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 accounting standards generally accepted in the Kingdom Of Saudi Arabia. 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, 2013, 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.

Deloitte & Touche
Bakr Abulkhair & Co.

ديلويت آند توش
بكر أبو الخير وشركاهم
محاسبون قانونيون
ترخيص رقم ٩٦ Lic. 96
C.P.A
Deloitte & Touche
Bakr Abulkhair & Co.

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

9 Rabi'II,1435
February 9, 2014

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER

(Saudi Closed Joint Stock Company)

CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2013

(Expressed in Saudi Riyals)

	Note	2013	2012
ASSETS			
Current assets			
Cash and cash equivalents		**33,970,374**	19,965,414
Accounts receivable-net	4	**200,690,965**	181,180,260
Inventories- net	5	**134,920,867**	129,020,693
Prepayments and other receivables	6	**86,561,797**	93,867,397
Due from a related party	17	**53,413,021**	73,871,440
Total current assets		**509,557,024**	**497,905,204**
Non-current assets			
Property, plant and equipment	**8**	**945,613,437**	**920,331,993**
Total non-current assets		**945,613,437**	**920,331,993**
TOTAL ASSETS		**1,455,170,461**	**1,418,237,197**
LIABILITIES AND EQUITY			
Current liabilities			
Short-term loans	9	**228,346,327**	284,189,836
Current portion of long-term loans	9	**165,166,664**	139,539,417
Notes Payable		**1,525,385**	3,316,870
Accounts payable		**27,337,661**	38,081,982
Due to related parties	17	**592,542**	9,821,194
Accruals and other payables	10	**27,614,670**	23,206,663
Total current liabilities		**450,583,249**	**498,155,962**
Non-current liabilities			
Long-term loans	9	**455,841,682**	439,841,679
End-of-service indemnities	**11**	**16,197,659**	**10,726,723**
Total non-current liabilities		**472,039,341**	**450,568,402**
TOTAL LIABILITIES		**922,622,590**	**948,724,364**
Equity			
Share capital	12	**400,000,000**	400,000,000
Statutory reserve	13	**40,713,699**	31,905,823
Retained earnings		**91,834,172**	37,563,286
Equity attributable to the parent		**532,547,871**	469,469,109
Non-controlling interest		**-**	**43,724**
Total equity		**532,547,871**	**469,512,833**
TOTAL LIABILITIES AND EQUITY		**1,455,170,461**	**1,418,237,197**

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, 2013

(Expressed in Saudi Riyals)

	Note	2013	2012
Sales		**760,016,108**	653,577,351
Cost of sales		**(556,255,042)**	(509,471,187)
Gross profit		**203,761,066**	144,106,164
Selling and marketing expenses	14	**(37,225,907)**	(38,981,392)
General and administrative expenses	15	**(41,902,935)**	(43,030,270)
Operating income		**124,632,224**	**62,094,502**
Finance charges		**(32,083,924)**	(25,930,092)
Other income		**1,159,361**	**2,139,740**
Net Income before zakat and income tax		**93,707,661**	38,304,150
Zakat and income tax	**16**	**(6,134,760)**	**(476,722)**
NET INCOME		**87,572,901**	**37,827,428**
NET INCOME ATTRIBUTABLE TO:			
Shareholders' of the parent		**88,078,762**	37,826,907
Non-controlling interest		**(505,861)**	521
		87,572,901	**37,827,428**
Earnings per share from net income		**2.20**	**0.95**
Earnings per share from continuing operations		**3.12**	**1.55**
Earnings per share from non-operating operations		**(0.92)**	**(0.60)**

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, 2013

(Expressed in Saudi Riyals)

	Share capital	Statutory reserve	Retained earnings	Shareholders' accounts	Non-controlling Interest	Total
January 01, 2012	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	-	-	-	8,139,298	1,432	8,140,730
Transfer to due to related parties	-	-	-	(7,729,102)	-	(7,729,102)
December 31,2012	**400,000,000**	**31,905,823**	**37,563,286**	**-**	**43,724**	**469,512,833**
Net income for 2013	-	-	88,078,762	-	(505,861)	87,572,901
Transfer to statutory reserve	-	8,807,876	(8,807,876)	-	-	-
Dividend paid			(25,000,000)	-	-	(25,000,000)
Movement during the year	-	-	-	-	(3,390)	(3,390)
Disposal of subsidiary	-	-	-	-	465,527	465,527
December 31,2013	**400,000,000**	**40,713,699**	**91,834,172**	**-**	**-**	**532,547,871**

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, 2013

(Expressed in Saudi Riyals)

	2013	2012
OPERATING ACTIVITIES		
Net income before zakat and income tax	**93,707,661**	38,304,150
Adjustments for:		
Depreciation	**77,263,139**	69,269,324
Financial charges - net	**32,083,924**	25,930,092
Gains from sale of property and equipment	**(153,326)**	(213,052)
Provision for doubtful accounts	**323,761**	2,559,168
Provision for slow moving inventory	**2,676,239**	3,000,000
End-of-service indemnities	**8,473,884**	3,772,002
Changes in operating assets and liabilities:		
Accounts receivable - net	**(23,838,804)**	18,614,570
Inventories - net	**(8,576,413)**	(15,458,167)
Prepayments and other receivables	**10,764,268**	(18,225,599)
Due from a related party	**17,032,363**	26,394,314
Accounts payable	**(4,508,987)**	7,926,754
Due to related parties	**(9,228,652)**	1,401,345
Accruals and other payables	**2,619,364**	**6,216,284**
Cash from operations	**198,638,421**	169,491,185
Financial charges paid	**(32,480,254)**	(29,965,886)
Zakat Paid	**(3,985,789)**	(1,021,851)
End-of-service indemnities paid	**(3,002,948)**	(1,563,666)
Net cash from operating activities	**159,169,430**	**136,939,782**
INVESTING ACTIVITIES		
Disposal of investment	**(484,529)**	-
Purchase of property, plant and equipment	**(102,806,143)**	(73,246,245)
Proceeds from sale of property, plant and equipment	**414,886**	**1,871,050**
Net cash used in investing activities	**(102,875,786)**	**(71,375,195)**
FINANCING ACTIVITIES		
Short-term loans and notes payable	**(57,634,994)**	144,476,164
Proceeds/(repayment) of long-term loans	**41,627,250**	(230,705,832)
Shareholders' accounts	**-**	6,198,508
Payment of dividend	**(25,000,000)**	-
Non-controlling interest	**-**	1,432
Net cash used in financing activities	**(41,007,744)**	**(80,029,728)**
Net change in cash and cash equivalents	**15,285,900**	(14,465,141)
Cash and cash equivalents from a disposed subsidiary, January 1	**(1,280,940)**	-
Cash and cash equivalents, January 1	**19,965,414**	34,430,555
CASH AND CASH EQUIVALENTS, DECEMBER 31	**33,970,374**	**19,965,414**

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

(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. Investment in the British subsidiary has been sold during the year.

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).

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.

These financial statements have been prepared for management purposes and the Company has separately issued statutory consolidated financial statements for extended period from January 8, 2012 to December 31, 2013 as required by the regulations for companies in the Kingdom of Saudi Arabia.

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.

Certain figures for 2012 have been reclassified to conform to the presentation for the current year.

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 the year MOL Fiber Company Limited has been sold and consolidated till the date of disposal.

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.

(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.

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.

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.

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.

(Expressed in Saudi Riyals)

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.

4- ACCOUNTS RECEIVABLE- NET

	2013	2012
Accounts receivable – trade	203,592,327	183,757,861
Less: Provision for doubtful accounts - net	(2,901,362)	(2,577,601)
	200,690,965	181,180,260

5- INVENTORIES - NET

	2013	2012
Spare parts and supplies, not available for sale	50,609,476	42,428,889
Raw materials	78,241,460	74,189,389
Finished goods	9,288,971	13,209,991
Less: Provision for slow moving inventories	(3,219,040)	(807,576)
	134,920,867	129,020,693

During the year, the Company wrote-off inventory amounting to SR 264,775 (2012: SR 5,481,758).

(Expressed in Saudi Riyals)

6- PREPAYMENTS AND OTHER RECEIVABLES

	2013	2012
General Authority of Water (note 18)	30,490,630	30,490,630
Societe Marociane De Recuperation Et De Recyclage	-	3,472,095
Middle East Environment Production Company	-	1,884,236
Advances to suppliers	37,417,391	36,023,323
Advances to employees	5,183,900	1,682,076
Prepaid expenses	6,636,994	8,490,274
Retentions	804,377	852,134
Margin Deposit	525,591	-
Others	5,502,914	10,972,629
	86,561,797	93,867,397

7- INVESTMENT IN A COMPANY

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

Name of subsidiary	Place of Incorporation	% Held (directly and indirectly)	2013	2012
MOL Fiber Company Limited	United Kingdom	51%	-	51%
			-	51%

During the year, the Group sold its investment in MOL Fiber Company Limited at the net book value as of date of the sale to its existing shareholder.

The Company's share of net assets in a subsidiary disposed during the year includes;

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

(Expressed in Saudi Riyals)

8- PROPERTY, PLANT AND EQUIPMENT

2013	January 1	Additions	Disposals/ adjustment	Transfers	December 31
Cost					
Land	59,319,884	7,450,516	-	-	66,770,400
Buildings and mobile cabinets	152,695,687	795,948	-	198,789	153,690,424
Machinery and equipment	976,293,519	54,632,441	(1,031,413)	-	1,029,894,547
Furniture and fixture	17,262,037	1,795,008	-	-	19,057,045
Motor vehicles	32,592,487	1,053,661	(763,917)	-	32,882,231
Capital work in progress	288,752	37,078,569	-	(198,789)	37,168,532
Total	**1,238,452,366**	**102,806,143**	**(1,795,330)**	**-**	**1,339,463,179**
Accumulated Depreciation					
Buildings and mobile cabinets	20,410,414	4,727,917	-	-	25,138,331
Machinery and equipment	263,121,507	66,659,556	(1,022,914)	-	328,758,149
Furniture and fixture	12,749,228	1,701,546	-	-	14,450,774
Motor vehicles	21,839,224	4,174,120	(510,856)	-	25,502,488
Total	**318,120,373**	**77,263,139**	**(1,533,770)**	**-**	**393,849,742**
Net book value	**920,331,993**				**945,613,437**

2012	January 1	Additions	Disposals	Transfers	December 31
Cost:					
Land	59,319,884	-	-	-	59,319,884
Buildings and mobile cabinets	152,160,226	820,394	(1,470,005)	1,185,072	152,695,687
Machinery and equipment	913,541,388	62,753,931	(1,800)	-	976,293,519
Furniture and fixture	15,198,684	2,101,891	(38,538)	-	17,262,037
Motor Vehicles	27,187,022	6,326,912	(921,447)	-	32,592,487
Capital work in progress	230,707	1,243,117	-	(1,185,072)	288,752
Total	**1,167,637,911**	**73,246,245**	**(2,431,790)**	**-**	**1,238,452,366**
Accumulated Depreciation:					
Buildings and mobile Cabinets	15,414,020	4,996,394	-	-	20,410,414
Machinery and equipment	204,285,564	58,836,183	(240)	-	263,121,507
Furniture and fixture	11,340,486	1,408,742	-	-	12,749,228
Motor vehicles	18,584,771	4,028,005	(773,552)	-	21,839,224
Total	**249,624,841**	**69,269,324**	**(773,792)**	**-**	**318,120,373**
Net book value	**918,013,070**				**920,331,993**

Land includes a plot of land with a cost of SR 24.4 million (2012: SR 24.4 million) in the name of a related party who assigned the title to the Company. Legal formalities to affect the transfer are currently in process.

(Expressed in Saudi Riyals)

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, 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).

9- LOANS AND BANK FACILITIES

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

	2013	2012
Short term loans – See (a) below	228,346,327	284,189,836
Long term loans		
Commercial Loans	450,208,346	354,581,096
Saudi Industrial Development Fund (SIDF) – see (b) below	170,800,000	224,800,000
	621,008,346	579,381,096
Less : current portion of Long term loans	(165,166,664)	(139,539,417)
	455,841,682	439,841,679

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 678.6 million as of December 31, 2013 (2012: SR 638.7 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 2012 to partially finance the construction of the manufacturing facilities of which SR 171 million were utilized as of December 31, 2013 (2012: SR 225 million). The repayment of outstanding balance as of December 31, 2013 will be in unequal semiannual installments ending May 2017.

   The Company has signed additional loan agreement with SIDF amounting SR 124.7 million which is not utilized as of December 31, 2013. 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) These facilities agreements including the SIDF agreement have certain covenants which are all complied by the Company.

Maturity

Long-term loans are repayable as follows:

Due date	2013	2012
2013	-	139,539,417
2014	165,166,664	148,999,997
2015	155,041,682	100,041,682
2016	149,000,000	94,000,000
2017	151,800,000	96,800,000
	621,008,346	579,381,096

(Expressed in Saudi Riyals)

10- ACCRUALS AND OTHER PAYABLES

	2013	2012
Financial charges	5,483,984	5,880,314
Employee related accruals	9,011,315	8,185,590
Higher Institute for Paper & Industrial Technologies	3,853,496	-
Advances from customers	278,663	-
Transportation	3,292,961	4,387,173
Zakat and income tax (note 16)	2,373,941	188,968
Utilities	1,172,221	650,077
Others	2,148,089	3,914,541
	27,614,670	23,206,663

11- END-OF-SERVICE-INDEMNITIES

	2013	2012
January 1	10,726,723	10,459,177
Provision for the year	8,473,884	3,772,002
Transfer to shareholders' accounts	-	(1,940,790)
Payments during the year	(3,002,948)	(1,563,666)
December 31	16,197,659	10,726,723

(Expressed in Saudi Riyals)

12- SHARE CAPITAL

The share capital of the Company as of January 1, 2012 was SR 360 Million.

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

During the year, the shareholders further resolved to reduce the par value of each share from SR 1,000 to SR 10 each as per the existing shareholding ratio.

The share capital of the Company as of December 31 2013, and 2012 was comprised of 40,000,000 and 400,000 shares at par value SR 10 and SR 1,000 each respectively, owned by the shareholders as follows:

Shareholder	Percentage of Ownership		Amount	Amount
	2013	2012	2013	2012
A.K Al-Muhaidib and Sons Company (AKMS)	35.32%	35.32%	141,280,000	141,280,000
Ibrahim Abdullah Abu Nayyan and Brothers Company	35.32%	35.32%	141,280,000	141,280,000
Abdullah A. Bin Al-Moammar	19.46%	19.46%	77,840,000	77,840,000
Emad Abdel Kader Al-Muhaidib	4.95%	4.95%	19,800,000	19,800,000
Abdulelah Abdullah Abu Nayyan	4.95%	4.95%	19,800,000	19,800,000
	100.00%	**100.00%**	**400,000,000**	**400,000,000**

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

	2013	2012
Salaries and related benefits	**3,322,405**	2,851,201
Transportation and shipping	**28,585,723**	27,777,382
Sales commissions	**2,401,070**	3,058,892
Bad debt expenses	**323,761**	2,559,168
Repairs and maintenance	**1,084,644**	1,180,125
Depreciation	**462,207**	413,119
Others	**1,046,097**	1,141,505
	37,225,907	**38,981,392**

(Expressed in Saudi Riyals)

15- GENERAL AND ADMINISTRATIVE EXPENSES

	2013	2012
Salaries and related benefits	29,026,676	28,786,609
Depreciation	3,157,532	2,485,836
Professional fees	836,974	318,033
Repairs and maintenance	812,659	702,429
Communications	713,194	533,636
Travel expenses	1,031,980	609,855
Insurance expenses	902,017	895,629
Rent	90,962	100,738
Consultation fee	65,110	80,961
Training	57,988	-
Stationary	496,351	291,084
Claims	-	2,415,450
Governmental fees	962,629	1,026,326
Expenses charged from shareholders’	30,000	185,965
Bank charges	858,898	498,162
Others	2,859,965	4,099,557
	41,902,935	43,030,270

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;

	2013	2012
Non-current assets	945,613,437	920,331,993
Non-current liabilities	472,039,341	450,568,402
Opening shareholders’ equity	469,469,109	431,232,006
Net income before zakat	93,707,661	38,304,150

(Expressed in Saudi Riyals)

b. Movement in zakat provision is as follows:

	2013	2012
January 1	188,968	734,097
Provision for the year *	2,998,279	476,722
Prior year short fall	3,172,483	-
Paid during the year	(3,985,789)	(1,021,851)
December 31	2,373,941	188,968

*Zakat provision charged to consolidated statement of income has been netted-off with the reversal of a charge of SR 36,002 related to a subsidiary disposed off during the year.

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 the year.

Zakat declarations for the years 2009 to 2012 are under review by the DZIT.

17- RELATED PARTY MATTERS

During the year, 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

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

	2013	2012
Sales	626,584	1,006,520
Purchases	4,358,780	5,094,243
Purchases of fixed assets	128,826	5,047
Expenses	2,213,735	1,851,322
Settlement of end of services indemnity to a shareholder account	-	1,940,790
Settlement of prepayments and other receivables balance through a related party	3,426,056	-
Transfer of shareholders' account balances to related parties	-	7,729,102

(Expressed in Saudi Riyals)

b. Due from a related party

	2013	2012
Beatona Company*	**53,413,021**	**73,871,440**

* Due from Beatona Company includes SR 49,868,584 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.

c. Due to related parties

	2013	2012
Industrial Cities Development and Operating Company	592,542	2,092,092
Ibrahim Abdullah Abu Nayyan and Brothers Company	-	7,614,551
A.K Al-Muhaidib and Sons Company	-	114,551
	592,542	**9,821,194**

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, 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, 2013 amounted to SR 8,094,237 (2012: SR 7,206,062).

20- CONTINGENCIES AND COMMITMENTS

At December 31, 2013, the Group was currently liable for outstanding letters of credits of SR 34,409,848 (2012: SR 14,466,433) and letters of guarantee of approximately SR 2,454,100 million (2012: SR 5,654,550) issued in the normal course of the business.

(Expressed in Saudi Riyals)

21- NON CASH TRANSACTIONS

	2013	2012
Non- controlling interest share of current year net loss	509,251	-
Inventory written off during the year	264,775	5,481,758
Disposal of non-controlling interest share of net assets during the year	465,527	-
Transfer of SMRR balance from prepayments and other receivables to a related party	3,426,056	-
Adjustment for a subsidiary net assets for year adjusted against prepayments and other receivables	32,612	-
Transfer from retained earnings to share capital	-	15,000,000
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
Account receivables 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**	**-**

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 year ended as follows (SR 000):

2013	Manufacturing Segment	Trading Segment	Elimination	Total
Assets	1,434,397	112,856	(92,082)	1,455,171
Liabilities	901,849	64,867	(44,093)	922,623
Sales	700,909	302,326	(243,219)	760,016
Gross profit	**162,697**	**41,064**	**-**	**203,761**

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
Gross profit	**111,712**	**32,394**	**-**	**144,106**

23- FAIR VALUE

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