MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW REPORT

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2020

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2020

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Building a better working world

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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Middle East Company for Manufacturing and Producing Paper (A Saudi Joint Stock Company) (the "Company") and its subsidiaries (collectively referred as "the Group") as at 30 June 2020, and the related interim condensed consolidated statement of profit or loss and other comprehensive income, for the three-month and six-month periods ended 30 June 2020, and the related interim condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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" endorsed in the Kingdom of Saudi Arabia. A review of 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 that are 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.

Conclusion

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

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on 18 March 2020. Further, the interim condensed consolidated financial statements of the Group for the three-month period ended 31 March 2020 and for the six-month period ended 30 June 2019 were reviewed by another auditor who expressed an unmodified review conclusion on those financial statements on 5 May 2020 and 1 August 2019, respectively.

for Ernst & Young

Abdullah Ali AlMakrami
Certified Public Accountant
License No. 476

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EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

29 Dhul-Hijjah 1441H
19 August 2020 G

Jeddah

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

(Expressed in Saudi Riyals unless otherwise stated)

	Note	***30 June 2020 (Unaudited)***	*31 December 2019 (Audited)*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	**1,114,005,209**	1,056,884,444
Right-of-use assets	6	**40,585,537**	43,313,001
Intangible assets		**1,237,066**	2,018,137
TOTAL NON-CURRENT ASSETS		**1,155,827,812**	1,102,215,582
CURRENT ASSETS			
Inventories		**181,898,355**	208,074,647
Trade receivables		**197,115,225**	159,881,870
Prepayments and other receivables		**16,043,688**	15,927,918
Other current assets		**61,530,329**	67,457,820
Financial asset at fair value through profit or loss		**51,368**	39,434
Cash and cash equivalents		**17,179,401**	23,213,483
TOTAL CURRENT ASSETS		**473,818,366**	474,595,172
TOTAL ASSETS		**1,629,646,178**	1,576,810,754
EQUITY AND LIABILITIES			
EQUITY			
Share capital		**500,000,000**	500,000,000
Statutory reserve		**85,776,835**	84,220,419
Treasury shares		**(6,816,812)**	(6,816,812)
Retained earnings		**167,982,353**	153,974,608
TOTAL EQUITY		**746,942,376**	731,378,215
NON-CURRENT LIABILITIES			
Long-term borrowings	7	**302,070,560**	342,918,084
Lease liabilities	8	**33,903,827**	37,896,894
Other financial liability	9	**47,353,183**	-
Derivative financial instruments		**-**	224,625
Employee benefits		**45,676,182**	43,932,711
TOTAL NON-CURRENT LIABILITIES		**429,003,752**	424,972,314
CURRENT LIABILITIES			
Zakat payable	10	**1,937,457**	1,437,193
Long-term borrowings – current portion	7	**191,638,796**	141,617,251
Lease liabilities – current portion	8	**9,845,948**	5,456,196
Other financial liability – current portion	9	**7,462,305**	-
Derivative financial instruments		**1,078,680**	15,416
Short-term borrowings		**118,498,359**	171,700,857
Trade and other payables		**116,820,470**	97,374,542
Other current liabilities		**6,418,035**	2,858,770
TOTAL CURRENT LIABILITIES		**453,700,050**	420,460,225
TOTAL LIABILITIES		**882,703,802**	845,432,539
TOTAL EQUITY AND LIABILITIES		**1,629,646,178**	1,576,810,754

Chief Financial Officer | Chief Executive Officer | Chairman of the Board

The attached notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

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

For the three-month and six-month periods ended 30 June 2020
(Expressed in Saudi Riyals unless otherwise stated)

		Three-month period ended 30 June		*Six-month period ended 30 June*	
	Note	*2020*	*2019*	*2020*	*2019*
Revenue		**193,621,674**	176,086,332	**367,487,299**	357,930,143
Cost of revenue		**(148,849,243)**	(142,972,885)	**(287,101,689)**	(285,491,860)
GROSS PROFIT		**44,772,431**	33,113,447	**80,385,610**	72,438,283
Selling and distribution expenses		**(13,268,544)**	(13,349,564)	**(24,971,628)**	(25,167,462)
General and administrative expenses		**(13,382,086)**	(16,600,109)	**(27,185,050)**	(30,933,514)
Impairment (losses)/reversals on financial assets		**(320,395)**	(765,861)	**161,383**	(1,098,533)
Fair value gain/(loss) on derivative financial instruments		**69,064**	(1,073,022)	**(838,639)**	(1,871,418)
Other (expenses)/income, net		**(1,079,277)**	2,167,899	**(1,048,023)**	2,438,027
OPERATING PROFIT		**16,791,193**	3,492,790	**26,503,653**	15,805,383
Finance costs		**(4,841,567)**	(6,543,443)	**(10,300,727)**	(12,909,429)
PROFIT/(LOSS) BEFORE ZAKAT		**11,949,626**	(3,050,653)	**16,202,926**	2,895,954
Zakat expense	10	**(509,277)**	(977,988)	**(638,765)**	(1,141,025)
PROFIT/(LOSS) FOR THE PERIOD		**11,440,349**	(4,028,641)	**15,564,161**	1,754,929
Other comprehensive income					
Items not to be reclassified to statement of profit or loss in subsequent periods:					
Actuarial gain on re-measurement of employee benefit obligations		-	-	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**11,440,349**	(4,028,641)	**15,564,161**	1,754,929
Earnings/(loss) per share					
Basic and diluted, earnings/(loss) per share attributable to ordinary equity holders of the Group (Saudi Riyals)	11	**0.23**	(0.08)	**0.31**	0.04

H.S

Chief Financial Officer | Chief Executive Officer | Chairman of the Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2020

(Expressed in Saudi Riyals unless otherwise stated)

	Share capital	*Statutory reserve*	*Treasury shares*	*Retained earnings*	*Total*
Balance as at 1 January 2019 (Audited)	500,000,000	83,607,622	(6,816,812)	174,522,254	751,313,064
Profit for the period	-	-	-	1,754,929	1,754,929
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	1,754,929	1,754,929
Transfer to statutory reserve	-	175,493	-	(175,493)	-
Dividends paid (note 15)	-	-	-	(25,000,000)	(25,000,000)
Balance as at 30 June 2019 (Unaudited)	500,000,000	83,783,115	(6,816,812)	151,101,690	728,067,993
Balance as at 1 January 2020 (Audited)	500,000,000	84,220,419	(6,816,812)	153,974,608	731,378,215
Profit for the period	-	-	-	**15,564,161**	**15,564,161**
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	**15,564,161**	**15,564,161**
Transfer to statutory reserve	-	**1,556,416**	-	**(1,556,416)**	-
Balance as at 30 June 2020 (Unaudited)	**500,000,000**	**85,776,835**	**(6,816,812)**	**167,982,353**	**746,942,376**

H.S

Chief Financial Officer

Chief Executive Officer

Chairman of the Board

The attached notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six-month period ended 30 June 2020

(Expressed in Saudi Riyals unless otherwise stated)

		Six-month period ended 30 June	
	Note	*2020*	*2019*
OPERATING ACTIVITIES			
Profit before zakat		**16,202,926**	2,895,954
Adjustments to reconcile profit before zakat to net cash flows:			
Depreciation and amortization		**52,767,588**	47,701,162
Finance costs		**10,300,727**	12,909,429
Loss / (gain) on disposal of property and equipment		**233,996**	(1,837,569)
(Reversal) / allowance for impairment of trade receivables		**(161,383)**	1,098,532
Allowance for slow moving inventories		**1,800,000**	1,800,000
Employee benefits provision		**2,958,337**	3,113,177
Fair value loss on derivative financial instruments		**838,639**	1,871,418
Gain on disposal of financial assets at fair value through profit or loss		**(171,535)**	(489,837)
Fair value gain on financial asset at fair value through profit or loss		**(11,934)**	(481)
Remeasurement loss on lease liabilities		**522,531**	-
		85,279,892	69,061,785
Working capital adjustments:			
Inventories		**24,376,292**	14,240,270
Trade receivables		**(37,071,972)**	(51,089,495)
Prepayments and other receivables		**(115,770)**	(6,729,520)
Other current assets		**5,927,491**	(11,782,518)
Trade and other payables		**19,360,816**	1,664,812
Other current liabilities		**3,559,265**	1,261,457
Cash from operations		**101,316,014**	16,626,791
Finance costs paid		**(10,171,122)**	(14,182,863)
Zakat paid	10	**(138,501)**	(3,492,793)
Employee benefits paid		**(1,214,866)**	(1,679,603)
Net cash flows from / (used in) operating activities		**89,791,525**	(2,728,468)
INVESTING ACTIVITIES			
Purchase of property and equipment		**(33,258,000)**	(40,571,583)
Proceeds from disposal of property and equipment		**21,400**	2,253,657
Purchase of financial asset at fair value through profit or loss		**(2,404,300)**	(2,369,253)
Proceeds from sale of investments at fair value through profit or loss		**2,575,835**	3,359,090
Net cash flows used in investing activities		**(33,065,065)**	(37,328,089)
FINANCING ACTIVITIES			
Net change in short-term borrowings		**(53,007,913)**	11,277,568
Proceeds from long-term borrowings		**30,000,000**	100,000,000
Repayments of long-term borrowings		**(21,481,715)**	(48,952,381)
Payment of principle portion of lease liabilities		**(1,635,386)**	(3,009,667)
Payment of principle portion of other financial liability		**(16,635,528)**	-
Dividends paid	15	**-**	(25,000,000)
Net cash flows (used in) / from financing activities		**(62,760,542)**	34,315,520
DECREASE IN CASH AND CASH EQUIVALENTS		**(6,034,082)**	(5,741,037)
Cash and cash equivalents at the beginning of the period		**23,213,483**	28,842,546
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**17,179,401**	23,101,509

MAJOR NON-CASH TRANSACTIONS

Major non- cash transactions are reflected in note 5 and 6

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Chief Financial Officer	Chief Executive Officer	Chairman of the Board

The attached notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

1 CORPORATE INFORMATION

Middle East Company for Manufacturing and Producing Paper ("MEPCO" or the "Company") and its subsidiaries (collectively the "Group") are engaged in production and sale of container board and industrial paper. MEPCO is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia.

The Company obtained its Commercial Registration No. 4030131516 on 3 Rajab 1421H (corresponding to 30 September 2000). During the year 2012, the legal status of the Company converted from a limited liability company into a Saudi Closed Joint Stock Company. The Ministry of Commerce approved the conversion of the Company to a Saudi Closed Joint Stock Company by Ministerial Decision No. 44 dated 14 Safar 1433H (corresponding to 8 January 2012). The Company's application for its initial public offering was accepted by the Capital Market Authority (CMA) on 25 Jumada I 1436H (corresponding to 16 March 2015). The Company was converted to Saudi Joint Stock Company on 14 Rajab 1436H (corresponding to 3 May 2015).

At 30 June 2020, the Company had investments in the following subsidiaries:

Subsidiary name	*Country of incorporation*	*Principal business activity*	*Effective Ownership interest*
Waste Collection and Recycling Company Limited ("WASCO")	Saudi Arabia	Whole and retail sales of paper, carton and plastic waste	100%
Special Achievements Company Limited ("SACO")	Saudi Arabia	Whole and retail sales of used papers, carton and plastic products	100%

During 2018, the Company had started the process to transfer the 3% shareholding of WASCO and SACO in each other to the Company. The transfer of SACO's 3% shareholding in WASCO to the Company was completed during 2018. However, the legal formalities for the transfer of WASCO's 3% shareholding in SACO to the Company are under process as at the date of the issuance of these interim condensed consolidated financial statements.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The interim condensed consolidated financial statements for the six months period ended 30 June 2020 have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia as well as other standards and pronouncements that are endorsed by Saudi Organization for Certified Public Accountants ("SOCPA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019 (see also note 2.4).

2.2 Basis of measurement

These interim condensed consolidated financial statements are prepared under the historical cost convention, except for derivative financial instruments and investment at fair value through profit or loss which are measured at fair value. For defined benefit obligations, actuarial present value calculations are used.

2.3 Functional and presentation currency

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

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and accompanying disclosures. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, were disclosed in annual consolidated financial statements for the year ended 31 December 2019.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the globe including Saudi Arabia. During the period ended 30 June 2020, the Saudi Arabian government took many initiatives to contain the spread of virus which included restrictions on travel, gathering of people and enactment of curfew timings. This resulted in many non-essential businesses to close until further notice. The industry of packaging material is considered as an essential industry by the regulatory authorities and accordingly, the Group was permitted to operate under the normal course of business and its employees to attend the offices after taking precautionary measures in accordance with rules laid down by regulatory authorities. Considering these factors, the Company's management carried out an impact assessment on the overall Company's operations and business aspects including factors like dealing with customers, seamless products delivery processes, collections protocols, uninterrupted material supply, strong working capital projections, etc. and concluded that, as at the issuance date of these interim condensed consolidated financial statements, the Group did not have significant adverse impact on its operations and businesses due to COVID-19 and no significant changes are required to the judgements, assumptions and key estimates. However, in the view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Amendments to IFRS 3: *Definition of a Business*
The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the interim condensed consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: *Interest Rate Benchmark Reform*
The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the interim condensed consolidated financial statements of the Group as all of its LIBOR based borrowings will be paid before or during the year 2021.

Amendments to IAS 1 and IAS 8: *Definition of Material*
The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial statements of, nor is there expected to be any future impact to the Group.

(Expressed in Saudi Riyals unless otherwise stated)

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

Conceptual Framework for Financial Reporting issued on 29 March 2018
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the interim condensed consolidated financial statements of the Group.

4 SEGMENT INFORMATION

The Group has two operating and reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different marketing strategies. For each of the strategic business units, the Group's top management reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Manufacturing segment represents manufacturing of container board and industrial paper.
- Trading segment represents wholesale and retail sales of paper, carton and plastic waste.

Segment results that are reported to the top management (Chairman Board of Directors, Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Financial Officer (CFO)) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenues and profit (loss) before zakat, as included in the internal management reports that are reviewed by the top management. The following table presents segment information for the three month and six-month periods ended 30 June 2020:

	Manufacturing	*Trading*	*Elimination*	*Total*
Results for the six-month period ended 30 June 2020 (Unaudited)				
Revenues	361,349,965	85,935,934	(79,798,600)	**367,487,299**
External revenues	361,349,965	6,137,334	-	**367,487,299**
Segment profit / (loss) before zakat	16,200,347	(14,526,776)	14,529,355	**16,202,926**
Finance costs	9,468,385	832,342	-	**10,300,727**
Depreciation and amortization	46,918,180	5,849,408	-	**52,767,588**
Results for the three-month period ended 30 June 2020 (Unaudited)				
Revenues	190,916,867	43,299,751	**(40,594,944)**	193,621,674
External revenues	190,916,867	2,704,807	**-**	193,621,674
Segment profit / (loss) before zakat	11,947,047	(10,562,905)	**10,565,484**	11,949,626
Finance costs	4,277,261	564,306	**-**	4,841,567
Depreciation and amortization	23,742,794	2,979,233	**-**	26,722,027
Results for the six-month period ended 30 June 2019 (Unaudited)				
Revenues	346,191,317	133,022,787	(121,283,961)	**357,930,143**
External revenues	346,191,317	11,738,826	-	**357,930,143**
Segment profit before zakat	2,769,696	6,431,479	(6,305,221)	**2,895,954**
Finance costs	12,588,980	320,449	-	**12,909,429**
Depreciation and amortization	40,205,135	7,496,027	-	**47,701,162**

(Expressed in Saudi Riyals unless otherwise stated)

4 SEGMENT INFORMATION (continued)

	Manufacturing	*Trading*	*Elimination*	*Total*
Results for the three-month period ended 30 June 2019 (Unaudited)				
Revenues	169,920,593	62,051,371	(55,885,632)	**176,086,332**
External revenues	169,920,593	6,165,739	-	**176,086,332**
Segment profit before zakat	(3,055,295)	1,529,787	(1,525,145)	**(3,050,653)**
Finance costs	6,391,029	152,414	-	**6,543,443**
Depreciation and amortization	20,194,221	3,611,763	-	**23,805,984**
As at 30 June 2020 (Unaudited)				
Total assets	1,533,207,311	146,274,367	(49,835,500)	**1,629,646,178**
Total liabilities	786,264,935	105,536,590	(9,097,723)	**882,703,802**
As at 31 December 2019 (Audited)				
Total assets	1,491,338,540	152,386,456	(66,914,242)	1,576,810,754
Total liabilities	759,960,325	97,119,324	(11,647,110)	845,432,539

The Group makes sales in local and foreign markets in Middle East, Africa, Asia and Europe. Export sales during the three-month and six-month periods ended 30 June 2020 amounted to SR 79.5 million and SR 152.5 million, respectively (three-month and six-month periods ended 30 June 2019: SR 105.8 million and SR 187.4 million, respectively). Local external sales in Kingdom of Saudi Arabia, during the three-month and six-month periods ended 30 June 2020 amounted to SR 114.1 million and SR 214.9 million, respectively (three-month and six-month periods ended 30 June 2019: SR 70.2 million and SR 170.5 million, respectively).

(Expressed in Saudi Riyals unless otherwise stated)

5 PROPERTY, PLANT AND EQUIPMENT

	Land	*Buildings and mobile cabinets*	*Machinery and equipment*	*Furniture and fixtures*	*Motor vehicles*	*Capital work-in-progress*	*Total*
At 1 January 2020							
Cost	98,020,400	180,737,745	1,453,215,142	30,568,762	47,538,278	106,808,744	1,916,889,071
Accumulated depreciation	-	(58,231,913)	(735,827,868)	(27,002,080)	(38,942,766)	-	(860,004,627)
Net book value (Audited)	98,020,400	122,505,832	717,387,274	3,566,682	8,595,512	106,808,744	1,056,884,444
Six-month period ended 30 June 2020							
Opening net book value	98,020,400	122,505,832	717,387,274	3,566,682	8,595,512	106,808,744	1,056,884,444
Additions	79,952,744	324,739	7,030,803	866,978	590,500	24,951,303	113,717,067
Transfers							
- Cost	-	1,217,115	19,720,772	-	-	(20,937,887)	-
Disposals							
- Cost	-	-	(414,869)	-	(142,527)	-	(557,396)
- Accumulated depreciation	-	-	159,476	-	142,524	-	302,000
Remeasurement (note 5.2)	(7,747,341)	-	-	-	-	-	(7,747,341)
Depreciation charge	-	(2,939,391)	(43,879,142)	(711,069)	(1,063,963)	-	(48,593,565)
Closing net book value as at 30 June 2020	**170,225,803**	**121,108,295**	**700,004,314**	**3,722,591**	**8,122,046**	**110,822,160**	**1,114,005,209**
At 30 June 2020							
Cost	170,225,803	182,279,599	1,479,551,848	31,435,740	47,986,251	110,822,160	2,022,301,401
Accumulated depreciation	-	(61,171,304)	(779,547,534)	(27,713,149)	(39,864,205)	-	(908,296,192)
Net book value (Unaudited)	**170,225,803**	**121,108,295**	**700,004,314**	**3,722,591**	**8,122,046**	**110,822,160**	**1,114,005,209**

5.1 During the six-month period ended 30 June 2020, finance costs amounting to SR 1.5 million were capitalized as part of property, plant and equipment (year ended 31 December 2019: SR 2.5 million).

5.2 During the six-month period ended 30 June 2020, the Company acquired a plot of land having cash value amounting to SR 78,952,744 under a deferred payments arrangement with a total purchase price of SR 83,177,640 over the payment term. The title of this plot of land would be transferred by the seller to the Company after payment of the last installment due on 31 March 2029. Later the Company re-negotiate with the seller on cash value and payment terms and accordingly the revised cash value is SR 71,205,403 and total purchase price of SR 74,859,876 payable in unequal annual instalments ending on July 31, 2027 (note 9).

5.3 Capital work-in-progress as at 30 June 2020 includes costs incurred related to the ongoing projects for plant and machinery. The projects are expected to complete during the second quarter of 2021. Refer to note 13 for capital commitments.

5.4 All land, buildings and mobile cabinets, machinery, equipment, furniture and fixtures relating to the Company are pledged as collateral to Saudi Industrial Development Fund (SIDF) as a first-degree pledge (note 7).

(Expressed in Saudi Riyals unless otherwise stated)

6 RIGHT OF USE ASSETS

	Leased Land	*Buildings*	*Total*
At 1 January 2020			
Cost	47,168,541	3,157,027	50,325,568
Accumulated depreciation	(5,320,806)	(1,691,761)	(7,012,567)
Net book value (Audited)	41,847,735	1,465,266	43,313,001
Six-month period ended 30 June 2020			
Opening net book value	41,847,735	1,465,266	43,313,001
Additions	231,079	-	231,079
Remeasurement			
- Cost	628,402	251,159	879,561
- Accumulated depreciation	(809,855)	364,703	(445,152)
Depreciation charge	(2,865,775)	(527,177)	(3,392,952)
Closing net book value as at 30 June 2020	**39,031,586**	**1,553,951**	**40,585,537**
At 30 June 2020			
Cost	48,028,022	3,408,186	51,436,208
Accumulated depreciation	(8,996,436)	(1,854,235)	(10,850,671)
Net book value (Unaudited)	**39,031,586**	**1,553,951**	**40,585,537**

7 LONG-TERM BORROWINGS

	30 June 2020 (Unaudited)	*31 December 2019 (Audited)*
Saudi Industrial Development Fund ("SIDF")	**72,478,902**	72,251,125
Islamic banking facilities ("Tawarruq")	**421,230,454**	412,284,210
Long-term borrowings	**493,709,356**	484,535,335
Less: current portion shown under current liabilities	**(191,638,796)**	(141,617,251)
Long term borrowings shown under non-current liabilities	**302,070,560**	342,918,084

(a) The Company signed a loan agreement with SIDF amounting to SR 124.7 million in 2013 to finance the construction of manufacturing facilities. This loan was fully utilized as at 31 December 2017. The loan is repayable in unequal semi-annual instalments up to March 2022.

Upfront fees were deducted at the time of receipt of the loans. These fees are amortised over the periods of respective loans. The loans bear a follow up fee to be paid on periodic basis. Under the terms of the SIDF loan agreement, the Company's property, plant and equipment are pledged as collateral to SIDF.

(b) The Company has also obtained long-term credit facilities from commercial banks. These loans bear financial charges based on prevailing market rates in Kingdom of Saudi Arabia and United Kingdom ("LIBOR").

Upfront fees were deducted at the time of receipt of loans from commercial banks, which are amortised over the period of the respective loans. These loans are repayable up to the year 2024.

The above loans and facilities include certain financial covenants which require the Company to maintain certain levels of current and leverage ratios and certain restriction on dividend distribution and also notify the bank any breach or probable breach immediately. The Company is in compliance with these debt covenants as at 30 June 2020.

(Expressed in Saudi Riyals unless otherwise stated)

8 LEASE LIABILITIES

Movement in lease liabilities is summarized as follows:

	30 June 2020 (Unaudited)	*31 December 2019 (Audited)*
At the beginning of the period/year	**43,353,090**	49,981,515
Additions	**231,079**	-
Remeasurement	**956,940**	(150,000)
Accretion of interest	**844,052**	707,275
Payments	**(1,635,386)**	(7,185,700)
At the end of the period/year	**43,749,775**	43,353,090

The scheduled maturities of the lease liabilities as at period ended 30 June 2020 are as follows:

	Principal amount	*Interest*	*Net lease liabilities*
Current portion	**11,271,019**	**(1,425,071)**	**9,845,948**
Non-current portion	**38,641,561**	**(4,737,734)**	**33,903,827**
	49,912,580	**(6,162,805)**	**43,749,775**

9 OTHER FINANCIAL LIABILITY

During the six-month period ended 30 June 2020, the Company has signed an agreement with Emaar, the Economy City for purchase of a plot of land amounting to SR 83,177,640 under deferred payments arrangement for its future expansion projects. The Company is required to pay 20% of the liability in advance and remaining liability in unequal annual instalments ending on 31 March 2029.

Later the Company re-negotiate with the seller on cash value and payment terms and accordingly the revised cash value is SR 71,205,403 and total purchase price of SR 74,859,876 payable in unequal annual instalments ending on July 31, 2027.

The discounted liability related to land purchase arrangements is as follows:

	30 June 2020 (Unaudited)
Total liability	**54,815,488**
Less: current portion shown under current liabilities	**(7,462,305)**
Long term liability shown under non-current liabilities	**47,353,183**

The scheduled maturities of the liability related to land purchase arrangements as at period ended 30 June 2020 are as follows:

	Gross amount	*Discounting impact*	*Net liability*
Current portion	**8,317,764**	**(855,459)**	**7,462,305**
Non-current portion	**49,906,584**	**(2,553,401)**	**47,353,183**
	58,224,348	**(3,408,860)**	**54,815,488**

(Expressed in Saudi Riyals unless otherwise stated)

10 ZAKAT

10.1 Components of zakat base

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

10.2 Provision for zakat

	30 June 2020 (Unaudited)	*31 December 2019 (Audited)*
At the beginning of the period/year	**1,437,193**	4,020,197
Provisions		
- Provision for the current period/year	**647,663**	1,437,193
- Adjustment related to prior years	**(8,898)**	(527,404)
Payments	**(138,501)**	(3,492,793)
At the end of the period/year	**1,937,457**	1,437,193

10.3 Status of assessments

The zakat assessments of the Group are finalized for the years through 31 December 2008.

During 2016, the Company received additional zakat assessments amounting to SR 16.54 million for the years 2009 to 2012. The Company has settled an amount of SR 0.04 million on the non-objected items and submitted an objection against the remaining balance amount. During 2019, the GAZT has issued a revised assessment reducing the additional assessment amount to SR 6.83 million. The Company has settled SR 1.2 million and submitted the objection against the remaining revised assessment. Management believes that the ultimate outcome of this matter will not result in any material additional liability to the Company. The zakat declarations of the Company for the years 2013 to 2018 are filed with the GAZT and unrestricted zakat certificates have been obtained till 30 April 2021. During July 2020, the GAZT has issued an assessment for the year 2014, without any additional claim on zakat. Further, subsequent to the period end, the Company also filed the Zakat declaration for 2019 with GAZT which is also currently under their review.

The zakat declarations of WASCO and SACO for the years 2009 to 2019 are currently under review by the GAZT and unrestricted zakat certificates have been obtained till 30 April 2021.

11 EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

	Three-month period ended		***Six-month period ended***	
	30 June 2020 (Unaudited)	*30 June 2019 (Unaudited)*	***30 June 2020 (Unaudited)***	*30 June 2019 (Unaudited)*
Net profit / (loss) attributable to owners of the Company	**11,440,349**	(4,028,641)	**15,564,161**	1,754,929
Weighted average number of shares	**49,700,000**	49,700,000	**49,700,000**	49,700,000
Basic and diluted earnings per share (SR per share)	**0.23**	(0.08)	**0.31**	0.04

(Expressed in Saudi Riyals unless otherwise stated)

12 FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. The management assessed that the fair value of cash and cash equivalents, trade and other receivables. Short-term borrowings and trade payables approximate their carrying amounts largely due to the short-term maturities of these instruments

The Group fair values the derivative financial instruments and investment at fair value through profit or loss. The fair value of derivative financial instruments is calculated as the present value of the estimated future cash flows based on observable yield curves. The fair value of investment at fair value through profit or loss is based on the net asset value communicated by the fund manager.

The fair values under Level 2 were as follows:

	30 June 2020	*31 December 2019*
Level 2		
Derivative financial instruments – Negative fair value	**1,078,680**	(240,041)
Investment at fair value through profit or loss	**51,368**	39,434

During the six-month periods ended 30 June 2020 and 30 June 2019, there were no movements between the levels.

(Expressed in Saudi Riyals unless otherwise stated)

13 CONTINGENCIES AND COMMITMENTS

(a) As at 30 June 2020, the Group had outstanding letters of credit amounting to SR 1.45 million (31 December 2019: SR 2.77 million) and letters of guarantee amounting to SR 1.95 million (31 December 2019: SR 2.71 million) that were issued in the normal course of the business.

(b) The capital expenditure contracted by the Group but not incurred till 30 June 2020 was approximately SR 23.9 million (31 December 2019: SR 33.8 million).

14 RELATED PARTY TRANSACTIONS AND BALANCES

14.1 Key management compensation

Compensation for key management is as follows:

	Three-month period ended		*Six-month period ended*	
	30 June 2020 (Unaudited)	*30 June 2019 (Unaudited)*	***30 June 2020 (Unaudited)***	*30 June 2019 (Unaudited)*
Short term benefits	**2,866,179**	2,945,286	5,635,785	5,523,642
Post-employment benefits	**43,583**	66,481	113,400	139,378
Termination benefits	**112,937**	708,941	271,174	852,591
	3,022,699	3,720,708	6,020,359	6,515,611

Compensation to key management personnel includes salaries, and contributions to post-employment defined benefit plan.

14.2 Related party transactions

Significant transactions with related parties in the ordinary course of business included in the condensed consolidated interim financial information is summarized below:

			Three-month period ended		*Six-month period ended*	
Related party	***Description of transaction***	***Relationship***	***30 June 2020 (Unaudited)***	*30 June 2019 (Unaudited)*	***30 June 2020 (Unaudited)***	*30 June 2019 (Unaudited)*
Directors	Directors' remuneration	Directors	**629,653**	825,313	**1,263,928**	1,597,546

14.3 Related party balances

Significant due from/(to) balances with related parties are summarized below:

	30 June 2020	*31 December 2019*
Accrued directors' remuneration	**(1,151,460)**	(7,000)
Advances to key management personnel	**635,295**	626,515

15 DIVIDENDS

During March 2019, the Company has distributed a dividend based on General Assembly authorization to the Board of Directors for the second half of the financial year ended 31 December 2018 of SR 0.50 per share aggregating to SR 25 million. Accordingly, the dividend was paid in March 2019. No such dividend is declared yet in 2020.

16 AUTHORISATION OF FINANCIAL STATEMENTS

This interim condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on 29 Dhul-Hijjah 1441H (corresponding to 19 August 2020 G).