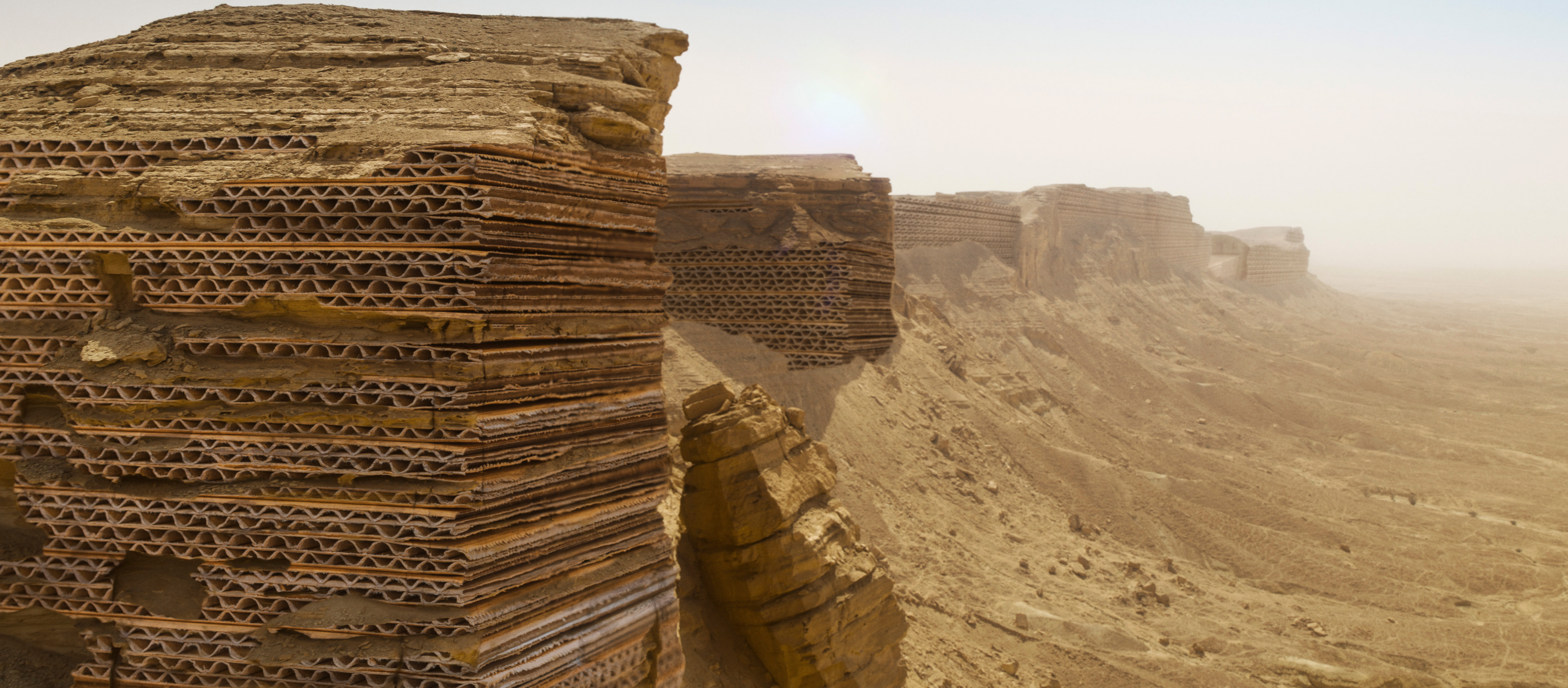


FROM THE  
**KINGDOM**  
— TO THE —  
**WORLD**



Middle East Paper Company

**2020**  
**ANNUAL**  
**REPORT**





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# FROM THE KINGDOM TO THE WORLD



"MEPCO continues to stand out as a leader in Saudi Arabia, as one of the best-performing companies in the region – and as a valued partner to companies worldwide."

Sami Al Safran,  
CEO, MEPCO

# MESSAGE FROM THE CHAIRMAN

## Dear Shareholders,

The events of 2020 demonstrated the value of MEPCO's commitment to corporate, operational and financial governance. You will read about the robust performance throughout this report, and these results are testament to the experienced management team and dedicated employees.

During the year, the Board of Directors spearheaded new initiatives to keep MEPCO at the forefront of governance. In light of the pandemic, we implemented a range of additional internal controls, risk assessment protocols and business continuity plans. We are also taking environmental governance to a new level, partnering with an expert consultancy to prepare MEPCO's first standalone ESG report. MEPCO is recognised as a pioneer in this regard, and throughout 2020, we worked with the KSA Government and other stakeholders on the Saudi Green Initiative and Saudi Vision 2030, bringing our unique recycling expertise to national and regional waste management strategy development.

I am delighted to report to shareholders that 2020 reinforced MEPCO's leadership at home and internationally, and I thank you for your ongoing support. I would also like to thank the Custodian of the Two Holy Mosques, the Crown Prince and the Saudi Government for their support and collaboration this year.

**Abdullah Almoammar**  
Chairman

# MESSAGE FROM THE CEO

## Dear Shareholders,

We have heard the term 'unprecedented' many times over the past year, but it's an accurate description of the many challenges we all faced from the Covid-19 pandemic. Despite those challenges, I am proud to report that MEPCO achieved record production and sales levels in 2020. This drove a 36.8% increase in EBIT and 229.2% increase in net profit compared with 2019.

These results are due to MEPCO's extraordinary staff, who demonstrated exceptional flexibility and dedication. Your commitment in the face of challenge is what makes MEPCO what it is.

Thanks to this 2020 performance, MEPCO has expanded its domestic market share while demonstrating true regional and global leadership. At a time when the international paper industry struggled due to lockdowns and raw material scarcity, we maintained operating rates of more than 92%. As a result, MEPCO was able to capitalise on demand related to the pandemic response and e-commerce boom, as well as rising prices.

Importantly, we achieved these production and sales records while focusing on the sustainable development of the business. In H1 2020, we developed a 5-year strategic plan in collaboration with a leading consultancy firm. This plan gives us a robust model for driving growth and operational excellence, and the initiatives launched during H2 have already borne fruit. Flagship programmes include a new tissue and hygiene paper factory, which will fill a growing gap in the domestic market while making us the most diverse paper manufacturer in the Middle East and North Africa. We also implemented programmes to develop our workforce, optimize costs, manage our financing and boost efficiency. As a result, we ended the year in a strong financial position.

I'd like to end by thanking everyone who has supported MEPCO this year – employees first and foremost, as well as customers, suppliers, stakeholders and shareholders

**Sami Al Safran**  
Chief Executive Officer

# 2020 HIGHLIGHTS

In a year characterised by global challenges, MEPCO reinforced its position as the largest containerboard manufacturer in the Middle East and North Africa.

In 2020, we achieved new production and sales records as we expanded our local market share. And we are becoming MENA's most integrated manufacturer as we develop new capabilities in tissue and hygienic paper.

# TRUE LEADERSHIP SOARS THROUGH HEADWINDS

## Performance

(All figures are in SAR '000)

	2020	Change from 2019
Sales Revenue	724,685	4.9%
Gross Profit	143,249	1.1%
Gross Profit %	19.8%	-0.7 bps
EBIT	43,592	36.8%
Net Profit	20,176	%229.2
Net Profit %	2.8%	%1.9
Earnings per Share (SAR)	0.41	0.29

## Markets



**31%**  
KSA market share

**40**   
Countries

On 5 continents (Asia, Africa, Europe, South America and North America) import MEPCO products

## Operations



**426,000**  
tonnes

Sold in 2020 – a new record

**475,000**  
tonnes

Annual installed capacity for containerboard products

**92%**

Utilisation rate throughout 2020

**60,000**  
tonnes

Planned annual installed capacity for the new tissue and hygienic paper factory announced in 2020

## Sustainability



**80%**

Of MEPCO's raw material is collected domestically through WASCO

**SAR 50 million**

Of environmental projects completed in 2020, enhancing sustainable production

**50%**

Of KSA's recyclable materials are handled by WASCO

**100%**

Of our energy needs are met by our own power generation capacity



## People



**34.6%**  
Saudisation rate



**13.3%**  
Of our Saudi workforce is women



**135**

Students graduated from our Higher Institute for Paper & Industrial Technologies in 2020

# DOMESTIC LEADERSHIP. REGIONAL IMPACT.

In 2020, MEPCO rose to global challenges, developing a 5-year strategic plan focused on 2 pillars: **growth and operational excellence.**

# GROWTH

MEPCO's 2020 results reflect our ambition and market leadership.

Despite the Covid-19 pandemic, we achieved record production and sales. We also used our strong position to drive our growth strategy, launching new tissue and hygiene paper capabilities that are transforming MEPCO into the region's most integrated paper manufacturer.

# PRODUCTION

**The pandemic created many production challenges for the paper industry – from managing raw material scarcity to ensuring Covid-secure operations. MEPCO thrived in the face of these obstacles.**

In 2020, we achieved record production of 426,000 tonnes, a 10% increase from 2019. Our utilisation rates continued to exceed 92% at a time when the global industry average fell 4% year on year to 82%. In fact, many companies had to pause operations or reduce production capacity because raw materials weren't available during the pandemic.

We maintained access to raw materials through our wholly-owned sister company WASCO, MENA's largest waste management specialist. We were therefore able to capitalise on booming containerboard demand, in large part driven by rapid e-commerce growth. With Covid-19 restrictions driving online shopping sales, MEPCO was a key domestic and regional partner in the packaging value chain. As a result, sales increased 12% year on year.

Containerboard also played an important role in supply chains essential to the Covid-19 response. At the start of the pandemic, we quickly shifted production to meet these

domestic requirements, ensuring Saudi Arabia had the containerboard material for national requirements. By the end of September 2020, domestic sales reached 59%, compared with 46% for the same period last year. Thanks to our ability to meet these needs, our domestic sales volumes increased 50%, strengthening our already robust KSA market share.

At the same time, we ensured international customers benefited from secure supplies. As the pandemic situation stabilised, we increased the share of exports. In total, 42.3% of 2020 sales were to international customers and 57.7% were domestic, compared with 52.7% international and 47.3% domestic in 2019.

**“In 2020, we achieved noteworthy cost efficiencies while achieving record production of 426,000 tonnes.”**

**Wadia Malibari,  
Chief Operating Officer, MEPCO**

# INTEGRATION

## Backward Integration

Backward integration has long been key to MEPCO's competitive advantage both domestically and internationally. WASCO, our wholly-owned sister company, is MENA's largest waste management specialist.

WASCO has 22 branches across Saudi Arabia, Jordan and Sudan. It handles 50% of KSA's recyclable material through landfill concessions, long-term supply contracts with major retailers and direct collections. WASCO provides 80% of the raw material used in MEPCO production.

In 2020, WASCO played an even more important role in MEPCO's performance. It ensured we had access to steady raw material supplies at a time when containerboard manufacturers worldwide struggled because lockdowns made collecting and transporting raw materials challenging. Despite local curfews and a drastic reduction in commercial and industrial waste volumes, WASCO's regional reach ensured we had the fibre needed to maintain uninterrupted production. In 2020, we expanded WASCO's operational model beyond paper to encompass a wider range of recyclable material and to support tissue and hygienic paper manufacturing.

This has put WASCO in an even stronger position to support the KSA Government's environmental ambitions. The Government launched a National Centre for Waste Management as part of Saudi Vision 2030, and in 2019, WASCO developed a comprehensive strategy with consultant Roland Berger to help drive this initiative and become a beacon of best practice for the country. In 2020, we continued executing this strategy, positioning WASCO as a leader in forthcoming Government initiatives.

**WASCO provides 80% of the raw material used in MEPCO production. This ensured a secure supply at a time when other manufacturers struggled with fibre scarcity.**

## Horizontal Integration

2020 marked a milestone in MEPCO's growth: we announced a new factory for producing tissue and hygienic paper jumbo rolls.

The new factory is a crucial element in our strategy for diversified growth – and will open new revenue streams domestically and internationally. Tissue and hygienic paper represent MEPCO's first foray into consumer-oriented products, and the new capabilities will allow us to capitalise on growth in this segment. Not only is the tissue market less volatile than containerboard, but there are clear correlations between rising demand for tissue, consumer spending and GDP. The new factory will provide a cost-effective domestic tissue supply as consumer spending and GDP increases drive more demand in Saudi Arabia.

We are building the SAR 338 million factory on existing MEPCO land in the Industrial Valley in King Abdullah Economic City starting in Q1 2021, with completion scheduled for Q4 2022.

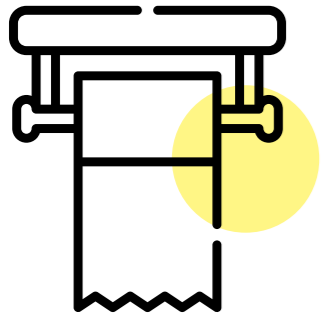
The factory will have an initial production capacity of 60,000 tonnes per year, covering a wide range of base weights. In February 2021, we signed an agreement with Toscotec, a leading Italian manufacturer, to design and install state-of-the-art machinery for the high-speed line.



**"By diversifying into tissue and hygienic paper, MEPCO is driving new growth opportunities as consumer spending and GDP rise post-pandemic. Leveraging state-of-the-art digitalisation and automation, our new factory will fill a gap in the market while creating a stable and profitable revenue stream."**

**Sami Al Safran, CEO, MEPCO**

# EXPANDING HORIZONS



## Tissue & Hygienic Paper

### The opportunity

- **KSA demand:** 250,000 tonnes per year, growing by 2.7% annually
- **Global trend:** Exponential growth in demand as consumer spending and GDP rise
- **Market gap:** KSA currently imports 170,000 tonnes per year

### The strategy

- **New MEPCO factory:** With annual production capacity of 60,000 tonnes
- **Estimated profit margin:** 30 to 35%
- **Competitive advantage:** Lower logistics costs, competitive energy costs, access to cost-effective raw materials, lower production costs from automation and digitalisation (compared with imports)

# OPERATIONAL EXCELLENCE

MEPCO's agile operating model has always been key to our strong performance.

Despite the operational challenges caused by the Covid-19 pandemic, MEPCO achieved ambitious efficiency targets while protecting staff safety and well-being.

# EFFICIENCY

**Our 5-year strategic plan includes ambitious operational efficiency targets. These focus on unlocking hidden potential while managing costs and optimising production inputs.**

Following on from our 2019 optimisation programme, we began implementing new efficiency initiatives in line with our strategic plan, which reduced downtime days and streamlined production planning. We were therefore able to maintain operations and keep utilisation rates above 92% – despite reduced worker counts per shift and more challenging waste paper collection processes due to lockdowns and curfews. These efficiency successes helped us reach 426,000 tonnes of production and contributed to our 36.8% increase in EBIT and 229.2% increase in net profit compared with 2019. In 2020, we continued investing in systems to support operational efficiency, developing a plan for upgrading existing technology infrastructure and deploying new solutions. We progressed with more advanced SAP deployments across the business, and we further integrated production and warehousing to maximise opportunities for automation and digitalisation.



**“With opportunities in the paper and waste management sectors abounding, we have a clear mission of where and how to grow MEPCO and WASCO. Our strategic plan gives us a concrete foundation for future growth.”**

**Bassem ElShawy,  
Head of Strategy and Business  
Development**

# HEALTH & SAFETY

**Staff safety and well-being are always our top priorities. In 2020, everyone at MEPCO went above and beyond their normal dedication, adapting to new protocols and ensuring Covid-secure operations.**

MEPCO plays a crucial role in the supply chain for products essential to the pandemic response. In early March when Covid-19 reached the Middle East, MEPCO leadership formed a dedicated taskforce that worked round the clock to implement and oversee new health and safety measures. The taskforce and senior management were in continuous contact with regulatory authorities to ensure compliance with Government requirements – and ensure we offered maximum protection to employees. We had no lay-offs, and all employees present in KSA were paid in full – whether they worked on site or from home.

Health and safety measures included frequent disinfection, hand sanitiser stations, one-way systems and shift reorganisation to reduce mixing. Communal facilities were closed, and we installed regular signage to remind people about handwashing and social distancing. We conducted mandatory temperature checks on arrival and provided all factory staff with masks and gloves. We also trebled the number of employee buses to allow for social distancing.

In combination with the KSA Government's robust Covid-19 response, these measures ensured both employee safety and business continuity. And we're proud to have achieved record production even with these mitigations in place.



**Thanks to the commitment of MEPCO staff in adhering to health and safety protocols, we maintained 92% operating rates and ensured uninterrupted supplies to all customers.**

# PROTECTING STAFF, ENSURING SAFE OPERATIONS



## Shifts

- Shifts reorganised to include the minimum number of workers required for operational continuity
- Home working implemented for staff not needed on site
- Mandatory temperature checks on arrival
- One-way systems in and out of buildings to prevent queuing or crowding



## Protection & Prevention

- Social distancing enforced
- Staff supplied with gloves and masks
- Prayer areas and dining facility closed



## Cleaning

- Secured vast quantities of disinfectant shown to be 100% effective against viruses and germs
- Floors, surfaces, doorknobs and any areas with direct human contact disinfected several times throughout each day
- Hand sanitiser stations installed across facilities
- Frequent handwashing encouraged via signage and manager reminders



## Transportation & Travel

- 300% increase in employee buses to and from housing to allow for social distancing
- Buses disinfected after each use
- All travel cancelled, with virtual meeting solutions used for all requirements including Board of Director and Executive Committee meetings

# EMPOWERMENT

**In 2020, we prioritised investment in people, working internally and with wider stakeholders to help foster great places to work and live.**

From developing local skills and women in the workforce to protecting the environment – we're proud to be regional trailblazers with our 360° approach to sustainability.

# PEOPLE

**In 2020, we launched new initiatives to support our people and provide the processes, skills and culture needed to drive growth.**

MEPCO's 5-year strategic plan identified cultural change and talent development as essential to our growth. To oversee this critical aspect of our transformation, we hired an experienced Chief Human Resources Officer in February 2020.

During 2020, we implemented numerous initiatives despite the challenges of Covid-19. We prioritised employee well-being, helping people cope with the stress and pressure caused by the pandemic and ensuring they had a safe work environment. To drive forward our strategic agenda, we also deployed a new performance evaluation system, improved talent acquisition processes and created a programme for identifying and mentoring future leaders. Our focus on developing local talent continued – we achieved a 34.6% Saudisation rate and maintained our platinum level under the Nitaqat programme.



**The commitment from all MEPCO staff is exceptional. We are working hard to repay that dedication by creating structured opportunities for people to develop and grow with the business**

**Maan Fatani,  
Chief Human Resources Officer,  
MEPCO**

# WOMEN IN THE WORKPLACE

We continued our efforts to empower women in the workplace. Not only is this key to MEPCO's growth, but it's essential to Saudi Vision 2030 and KSA's long-term ambitions.

In 2020, the proportion of female staff increased 2% to reach 13.3% of our Saudi workforce. 38% of new hires were female, up from 10% in 2019. Women are represented at all levels, from quality control assistants to supervisors and managers. During the year, we implemented a number of dedicated initiatives to support female colleagues, including flexible working and learning and development opportunities. We also provided the opportunity to relocate to our office inside Jeddah City to make commutes more convenient and make it easier to support families.



**38% of new hires were female in 2020, up from 10% in 2019**



"My career with MEPCO started in 2018. I was given the opportunities, work environment and support needed to perform at my best. I have a career progression plan and have been promoted based on my efforts. MEPCO achieves that delicate balance between running an efficient operation and ensuring employees are rewarded with equal opportunities. I'm proud to be part of MEPCO's success."

Wedyan Alharshani,  
HR Operations Supervisor, MEPCO

# ECONOMIC DEVELOPMENT

**Saudi Vision 2030 is an ambitious national transformation plan to diversify KSA's economy, support local development, attract investment and foster innovation.**

Now in its fifth year, the Vision is driving projects that promote 3 pillars: a vibrant society, thriving economy and ambitious nation. In 2020, MEPCO continued contributing to national progress in line with the Vision.

One key area for our contribution was waste management: the Government is promoting recycling and resource conservation in its green growth agenda. As part of this Saudi Green Initiative, it is encouraging the Saudi waste sector to divert 82% of total waste from landfill and increase recycling by 42%. Through WASCO, we are collaborating closely with the Government and other stakeholders, helping raise awareness and promote best practice in line with these objectives. For example, in 2020 we reclaimed more than 450,000 tonnes of waste paper from landfill, recycling it into containerboard to generate value for the KSA economy.

Another key area of the Vision relates to local employment and skills development. One way we support this is through The Higher Institute for Paper & Industrial Technologies (HIPIT). We established this landmark institute in 2013 as an independent, not-for-profit technical training centre, empowering young people to make their mark on KSA's industrial sector and become future leaders. 135 students graduated from HIPIT in 2020, bringing their skills to MEPCO and the broader national economy.



# ENVIRONMENT & COMMUNITY

**As a company that works with recycled material, sustainability drives every aspect of our business.**

In 2020, we continued to champion recycling in the MENA region, working to maintain high rates despite lockdowns and curfews. We also continued our advocacy efforts focusing on international environmental regulation to raise standards while reducing raw material prices.


We generate 100% of the power used in production at our own facility, which has a capacity of up to 49MW per hour. Not only does this help us maintain high levels of energy efficiency, but it means our electricity costs are 35% below grid price. In 2020, we recycled 70% of the water used in production, focusing on water reclamation and treatment efficiency to boost use of recycled water in a way that also reduces costs. In total, we completed SAR 50 million of environmental projects to make production more sustainable.

Our community initiatives focus on environment and education. Although many of our engagement programmes were put on hold due to Covid-19, we continued efforts to boost awareness of domestic recycling and support local schools and universities. We also continued with volunteering projects where possible, for example distributing 1,500 boxes of food during Ramadan.

# ESG REPORT

In 2020, MEPCO partnered with a specialist consultancy to create our first-ever standalone ESG report.

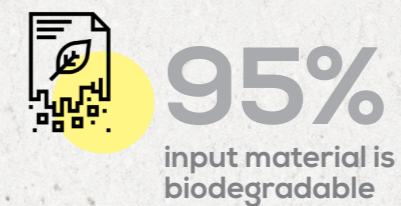
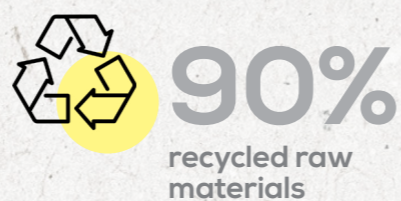
The village of Three Ain  
Al-Baha

 Read the report more information on our 2020 initiatives and achievements.

# ESG EXECUTIVE SUMMARY

In 2020, we prepared our first Sustainability Report in line with the internationally acclaimed GRI Standards. The Report covers our sustainability performance on environmental, social, and governance (ESG) issues and how we contribute to the Sustainable Development Goals (SDGs). In the Report, we provide information on how we ensure that all our operations are aligned with Saudi Vision 2030.

Our Sustainability Report also showcases our new Sustainability Framework, which revolves around three pillars that align with MEPCO's corporate mission and values, which are "Better Business Practices", "Innovating and Creating Value" and "Putting People First".



1. Due to the Effluent Treatment Plant (ETP) investments in 2020, which aims to improve the quality of the recycled water and to accommodate recycling larger volumes of water, we achieved a 3% reduction in water consumption prior to the implementation of the project.  
2. The Saudisation rate is calculated according to Nitaqat definition.  
3. Includes the cooperation with Jeddah Municipality to build the AlMulaisaa gardens in Alkhumrah district, Jeddah.



# CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020  
AND INDEPENDENT AUDITOR'S REPORT

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Middle East Company for Manufacturing and Producing Paper and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"), (collectively referred to as "IFRSs endorsed in KSA").

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") that are endorsed in KSA. Our responsibilities under those standards are further described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of our report. We are independent of the Company in accordance with professional code of conduct and ethics endorsed in KSA that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### 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.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements' section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY) (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

Key audit matter	How the matter was addressed in our audit
<p><b>Impairment loss on trade receivables</b></p> <p>The gross balance of trade receivables as at 31 December 2020 amounted to SR 192 million (2019: SR 166 million), against which an allowance for impairment of SR 6.5 million (2019: SR 6.7 million) was maintained.</p> <p>The Group has applied significant judgment in the determination of Expected Credit Loss (ECL). ECL is recognised in two stages. For credit exposures with significant increase in credit risk, ECL is recognized for credit losses expected over the remaining life of the exposure (a lifetime ECL) and the probability of recovery of individual balances. For credit exposures for which there has not been a significant increase in credit risk, ECL is provided for credit losses considering factors like historical default rate with forward-looking information, including economic fluctuations and the effects of the Covid-19 pandemic.</p> <p>We considered this as a key audit matter given the judgements and assumptions regarding the ECL impairment against trade receivables and the potential impact on the Group's consolidated financial statements</p> <p>Refer to note 3.8 to the consolidated financial statements for the significant accounting policy, note 2.6 for the critical accounting estimates and judgements and note 10 which details the disclosure of impairment against trade receivables.</p>	<p>We assessed the appropriateness of significant judgements, estimates and assumptions made by the management keeping in view the uncertainty due to the COVID19 pandemic.</p> <p>We obtained and updated our understanding of management's assessment of ECL against trade receivables. We compared the Group's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9.</p> <p>We involved our specialists to review methodology implemented by the Group in relation to the requirements of IFRS (9). Particularly, we assessed the Group's approach regarding assessment of the probability of default and incorporation of forward-looking information in the calculation of ECL, as well as the changes in loss given default parameter.</p> <p>We reviewed the appropriateness of the Group's criteria and judgement for the determination of individually impaired receivable.</p> <p>We tested the completeness and accuracy of data, on a sample basis, supporting the ECL calculations. We also assessed the reasonableness and adequacy of disclosures in the consolidated financial statements as required by IFRS 9 and IFRS 7 Financial instruments: Disclosure.</p>
<p><b>Impairment of inventories</b></p> <p>As at 31 December 2020, the Group had inventories amounting to SR 170.39 million and related provision for slow moving and obsolete inventories amounting to SR 3.22 million. These inventories comprise raw materials, work in progress, finished goods, consumable spare parts and goods-in-transit.</p>	<p>We tested the inventory provision calculations against the Company's policy for obsolete and slow-moving inventories. We attended stock counts at the year-end to observe and understand the Company's procedures for identifying obsolete inventory and we observed such inventories at the count.</p>

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY) (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

Key audit matter	How the matter was addressed in our audit
<p><b>Impairment loss on trade receivables</b></p> <p>For raw material, work in progress and finished goods, the Company adopts a policy of providing for inventories when there are specific quality/net realisable value concerns. For consumables spares, including supplies and other items, management considers them to be impaired when there is evidence of deterioration in the physical condition, technological changes and/or no movements in the specific period.</p> <p>We considered this as a key audit matter because establishing a provision for slow-moving, obsolete and damaged inventories involves significant management judgement in respect of factors such as identifying those slow moving, dormant and obsolete spare parts, and assessing their future use and respective allowance. The gross inventories and related provision are material to the financial statements.</p> <p>Refer to note 3.5 to the financial statements for the accounting policy relating to the inventories, note 2.6 for the critical accounting estimates and judgements and note 9 for the disclosures of movement in provision for slow moving and obsolete inventories.</p>	<p>We evaluated the assumptions and reasonableness of judgements used by management for provision assessment.</p> <p>For finished goods and work in progress, we traced, on a sample basis, inventories to sales subsequent to the year end and ensured that they were sold at more than net book value.</p> <p>For raw materials, spares, including supplies and other items, which are assessed for impairment as per policy, on a sample basis, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>- We obtained an understanding of how the Company's management identifies the slow-moving and obsolete inventories and assessed the amount of allowance for inventories;</li> <li>- We obtained an understanding and evaluated the appropriateness of the basis of identification of the slow-moving, dormant and obsolete inventories; and</li> <li>- We have tested the accuracy of the aging analysis of inventories, on a sample basis.</li> </ul> <p>We have also assessed the disclosures in the consolidated financial statements, including the reasonableness of disclosure of judgment, estimates and assumptions applied by the management in determining of impairment of inventories.</p>

**Other information included in the Group's 2020 Annual Report**

Other information consists of the information included in the Group's 2020 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2020 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Group's 2020 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY) (continued)

### Report on the Audit of the Consolidated Financial Statements (continued)

#### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs endorsed in KSA and the provisions of Companies' Law and Parent Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA that are endorsed in KSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA that are endorsed in KSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MIDDLE EAST COMPANY  
FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)  
(continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)**

**Obtain sufficient appropriate audit evidence regarding financial**

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young

**DRAFT**

**Abdullah Ali AlMakrami  
Certified Public Accountant  
License No. 476**

**3 Sha'ban 1442H  
16 March 2021**

**Jeddah**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2020 (Expressed in Saudi Riyals unless otherwise stated)

	Note	31 December 2020	31 December 2019
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	5	1,092,922,022	1,056,884,444
Right-of-use assets	6	38,285,472	43,313,001
Intangible assets	7	889,807	2,018,137
		-----	-----
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,132,097,301</b>	<b>1,102,215,582</b>
<b>CURRENT ASSETS</b>			
Inventories	9	167,165,681	208,074,647
Trade receivables	10	186,049,994	159,881,870
Prepayments and other receivables	11	13,234,702	15,927,918
Other current assets	12	33,350,966	67,457,820
Financial asset at fair value through profit or loss	13	5,581	39,434
Cash and cash equivalents	14	45,455,272	23,213,483
		-----	-----
<b>TOTAL CURRENT ASSETS</b>		<b>445,262,196</b>	<b>474,595,172</b>
		-----	-----
<b>TOTAL ASSETS</b>		<b>1,577,359,497</b>	<b>1,576,810,754</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	15	500,000,000	500,000,000
Statutory reserve	16	86,237,989	84,220,419
Treasury shares	17	(6,816,812)	(6,816,812)
Retained earnings		172,571,815	153,974,608
		-----	-----
<b>NET EQUITY</b>		<b>751,992,992</b>	<b>731,378,215</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Long-term borrowings	19	304,157,790	342,918,084
Lease liabilities	20	31,035,496	37,896,894
Other financial liability	21	39,923,049	-
Derivative financial instruments	8	-	224,625
Employee benefits	22	44,019,012	43,932,711
		-----	-----
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>419,135,347</b>	<b>424,972,314</b>
<b>CURRENT LIABILITIES</b>			
Zakat payable	23	4,693,350	1,437,193
Long-term borrowings - current portion	19	192,222,731	141,617,251
Lease liabilities - current portion	20	8,954,390	5,456,196
Other financial liability - current portion	21	6,579,796	-
Derivative financial instruments	8	364,800	15,416
Short-term borrowings	24	86,296,606	171,700,857
Trade and other payables	25	100,510,940	97,374,542
Other current liabilities	26	6,608,545	2,858,770
		-----	-----
<b>TOTAL CURRENT LIABILITIES</b>		<b>406,231,158</b>	<b>420,460,225</b>
		-----	-----
<b>TOTAL LIABILITIES</b>		<b>825,366,505</b>	<b>845,432,539</b>
		-----	-----
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,577,359,497</b>	<b>1,576,810,754</b>

Chief Financial Officer

Chief Executive Officer

Chairman of the Board

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2020 (Expressed in Saudi Riyals unless otherwise stated)

	Note	2020	2019
<b>Revenue</b>			
Revenue	4	724,685,412	691,077,493
Cost of revenue	27	(581,436,314)	(549,367,624)
		-----	-----
<b>GROSS PROFIT</b>		<b>143,249,098</b>	<b>141,709,869</b>
<b>Operating Expenses</b>			
Selling and distribution expenses	28	(47,912,342)	(53,297,734)
General and administrative expenses	29	(52,057,903)	(58,788,666)
Impairment reversals/(losses) on financial assets	10	196,166	(4,187)
Fair value loss on derivative financial instruments		(124,759)	(2,304,104)
Other operating income - net	30	241,374	4,544,426
		-----	-----
<b>OPERATING PROFIT</b>		<b>43,591,634</b>	<b>31,859,604</b>
<b>Finance costs - net</b>			
Finance costs - net	31	(18,899,174)	(24,821,843)
		-----	-----
<b>PROFIT BEFORE ZAKAT</b>		<b>24,692,460</b>	<b>7,037,761</b>
<b>Zakat expense</b>			
Zakat expense	23	(4,516,763)	(909,789)
		-----	-----
<b>PROFIT FOR THE YEAR</b>		<b>20,175,697</b>	<b>6,127,972</b>
<b>OTHER COMPREHENSIVE INCOME:</b>			
Items that will not be reclassified to profit or loss:			
Actuarial gains/(losses) on re-measurement of employee benefit obligations	22	439,080	(1,062,821)
		-----	-----
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>20,614,777</b>	<b>5,065,151</b>
<b>EARNINGS PER SHARE:</b>			
Basic and diluted, earnings per share attributable to ordinary equity holders of the Group (Saudi Riyals)			
	32	0.41	0.12
		-----	-----

Chief Financial Officer

Mohamed Saleh Darweesh

Chief Executive Officer

Sami Safran

Chairman of the Board

Abdullah AlMoammar

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2020 (Expressed in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Treasury shares	Retained earnings	Total
<b>Balance as at 1 January 2020</b>		500,000,000	84,220,419	(6,816,812)	153,974,608	<b>731,378,215</b>
Profit for the year		-	-	-	20,175,697	<b>20,175,697</b>
Other comprehensive income for the year		-	-	-	439,080	<b>439,080</b>
Total comprehensive income for the year		-	-	-	20,614,777	<b>20,614,777</b>
Transfer to statutory reserve	16	-	2,017,570	-	(2,017,570)	-
		.....	.....	.....	.....	.....
<b>Balance as at 31 December 2020</b>		<b>500,000,000</b>	<b>86,237,989</b>	<b>(6,816,812)</b>	<b>172,571,815</b>	<b>751,992,992</b>
		.....	.....	.....	.....	.....
<b>Balance as at 1 January 2019</b>		500,000,000	83,607,622	(6,816,812)	174,522,254	751,313,064
Profit for the year		-	-	-	6,127,972	6,127,972
Other comprehensive loss for the year		-	-	-	(1,062,821)	(1,062,821)
Total comprehensive income for the year		-	-	-	5,065,151	5,065,151
Transfer to statutory reserve	16	-	612,797	-	(612,797)	-
Dividends	36	-	-	-	(25,000,000)	(25,000,000)
		.....	.....	.....	.....	.....
<b>Balance as at 31 December 2019</b>		<b>500,000,000</b>	<b>84,220,419</b>	<b>(6,816,812)</b>	<b>153,974,608</b>	<b>731,378,215</b>
		.....	.....	.....	.....	.....

Chief Financial Officer

Chief Executive Officer

Chairman of the Board

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2020 (Expressed in Saudi Riyals unless otherwise stated)

	Note	2020	2019
<b>OPERATING ACTIVITIES</b>			
Profit before zakat		24,692,460	7,037,761
<b>Adjustment to reconcile income before zakat to net cash inflow from operating activities:</b>			
Depreciation and amortization	5,6,7	105,903,298	95,825,257
Finance costs	31	18,899,174	24,821,843
Loss/(gain) on disposal of property and equipment	30	661,782	(390,125)
Allowance for impairment of trade receivables	10	(196,166)	4,187
Allowance for slow moving inventories	9	5,171,569	3,600,000
Provision against advances to suppliers and employees	12	2,090,152	1,500,206
Employees' end of service benefits	22	4,403,282	6,495,935
Fair value loss/(gain) on derivative financial instruments		124,759	2,304,104
Gain on disposal of financial assets at fair value through profit or loss		(171,535)	(3,250,266)
Fair value gain on financial asset at fair value through profit or loss	13	(12,147)	(15,178)
Remeasurement loss on lease liabilities		522,531	-
		162,089,159	137,933,724
<b>Working capital adjustments:</b>			
Inventories		35,737,397	2,258,548
Trade receivables		(25,971,958)	(3,008,691)
Prepayments and other receivables		2,693,216	(1,806,098)
Other current assets		32,016,702	(25,009,189)
Trade and other payables		3,040,418	7,307,159
Other current liabilities		3,749,775	(125,714)
		213,354,709	117,549,739
<b>Cash generated from operations</b>			
Finance costs paid		(22,214,399)	(26,284,064)
Zakat paid	23	(1,260,606)	(3,492,793)
Employees' end of service benefits paid	22	(3,877,901)	(3,538,108)
		186,001,803	84,234,774
<b>Net cash flow from operating activities</b>			
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	5	(61,581,606)	(102,779,597)
Proceeds on disposal of property and equipment		452,458	2,448,333
Acquisition of investment at fair value through profit or loss	13	(2,404,300)	(24,065,394)
Proceeds from sale of investments at fair value through profit or loss		2,621,835	27,815,660
		(60,911,613)	(96,580,998)
<b>Net cash used in investing activities</b>			
<b>FINANCING ACTIVITIES</b>			
Net change in short-term borrowings		(84,778,677)	42,998,576
Proceeds from long-term borrowings	19	87,353,783	205,000,000
Repayments of long-term borrowings	19	(73,142,430)	(209,095,715)
Payment of principle portion of lease liabilities	20	(7,327,785)	(7,185,700)
Payment of principle portion of other finance liability		(24,953,292)	-
Dividends paid	36	-	(25,000,000)
		(102,848,401)	6,717,161
<b>Net cash (used in)/ flow from financing activities</b>			
<b>INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		23,213,483	28,842,546
		45,455,272	23,213,483
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>			
<b>MAJOR NON-CASH TRANSACTIONS</b>			
Major non-cash transactions are reflected in note 5, 9, 10, 20 and 21			

Chief Financial Officer

Chief Executive Officer

Chairman of the Board

## 1. CORPORATE INFORMATION

Middle East Company for Manufacturing and Producing Paper ("MEPCO" or the "Company") and its subsidiaries (collectively "the Group") are engaged in the 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 (3 May 2015).

At 31 December 2020, the Company had investments in the following subsidiaries (collectively referred to as "Group"):

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 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 of the date of the issuance of the consolidated financial statements.

## 2. BASIS PREPARATION

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in KSA and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

### 2.2 Basis of measurement

These 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 consolidated financial statements of the Group are presented in Saudi Arabian Riyals which is the functional and presentation currency of all of the entities in the Group.

### 2.4 New and amended standards adopted by the Group

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

#### Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations 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 clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the 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 uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The Group has certain borrowings which are exposed to the impact of LIBOR as at 31 December 2020. As part of the Group's risk management strategy, the Group uses financial instruments to manage exposures arising from variation of interest rates that could affect profit or loss.

The Group assessed that the impact of transition from LIBOR to risk free rates will not be significant on Group's financial statements 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 financial statements of, nor is there expected to be any future impact to the Group.

#### 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. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Group.

#### Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Group.

## 2.5 Standards and interpretations issued but not yet applied by the Group

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

### Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

### Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

### Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

### Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

### IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a

subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

### IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

## 2.6 Use of judgments and estimates

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 year ended 31 December 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 Group's management carried out an impact assessment on the overall Group'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 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.

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements was prepared.

Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Information about estimates and judgments made in applying accounting policies that could potentially have an effect on the amounts recognised in the consolidated financial statements, are discussed below:

**(a) Allowance for impairment of financial assets**

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

**(b) Allowance for inventory obsolescence**

The Group determines its allowance for inventory obsolescence based upon historical experience, current condition, and current and future expectations with respect to sales or use. The Group provides an amount as an allowance for obsolete and slow-moving inventories on a monthly basis and reassesses the closing balance at each reporting date based on the result of a physical count and the outcome of the periodic inspections of inventory undertaken by its technical team. The estimate of the Group's allowance for inventory obsolescence could change from period to period, which could be due to differing remaining useful life, change in technology, possible change in usage, their expiry, sales expectation and other qualitative factors of the portfolio of inventory from year to year.

**(c) Useful lives and residual values of property, plant and equipment**

The management determines the estimated useful lives and residual values of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear and expected proceeds on disposal of the respective assets. Management reviews the useful lives and residual values annually and future depreciation charges are adjusted where management believes the useful lives and residual values differ from previous estimates.

**(d) Employee benefits – defined benefit plan**

Employee benefits represent the employee termination benefits. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. The cost of post-employment defined benefits are the present value of the related obligation, as determined using projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates or high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term approximating the terms of the related obligation.

Where there is no deep market in such bonds, then market rates on government bonds are used or the rates from international bond markets are used which are adjusted for the country risk premium. Since there is no deep corporate bonds or government bonds in Saudi Arabia, the discount rate was selected using the yield available on Citi Pension Liability Index (CPLI) of the duration equal to the duration of the liability and adjusted for the country risk premium. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, withdrawal before normal retirement age, mortality rates, etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is sensitive to changes in these assumptions.

All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. With respect to determining the appropriate discount rate, yield and duration of high quality bonds obligation, as designated by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. Please see Note 22 for assumptions used.

**(e) Right-of-use assets and lease liabilities**

Extension and termination options are included in a number of leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the weighted average Group's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

**(f) Zakat**

The Company and its two wholly owned subsidiaries are subject to zakat in accordance with the regulations of the GAZT.

A provision for zakat is estimated at the end of each reporting period in accordance with the regulations of the GAZT and on a yearly basis zakat returns are submitted to the GAZT. Differences, if any, at the finalization of final assessments are accounted for when such amounts are determined.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Group for the preparation of these consolidated financial statements are consistent with those followed in preparation of the Group's annual consolidated financial statements for the year ended 31 December, 2019, except for accounting policies related to the new standard adopted by the Group effective as of 1 January 2020 (see Note 2.4).

#### 3.1 Basis of consolidation

**(a) Subsidiaries**

Subsidiaries are entities which are controlled by the Group. To meet the definition of control, all three criteria must be met:

- i) the Group has power over the entity;
- ii) the Group has exposure, or rights, to variable returns from its involvement with the entity; and
- iii) the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which the control is transferred from the Group. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of comprehensive income from the date of the acquisition or up to the date of disposal, as appropriate.

**(b) Eliminations on consolidation**

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### 3.2 Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting year; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting year.

All other assets are classified as non-current.

**A liability is current when:**

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting year; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting year.

The Company classifies all other liabilities as non-current.

### 3.3 Property, plant and equipment

#### (a) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment are recognised net within other income in profit or loss.

#### (b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### (c) Depreciation

Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and capital work in progress are not depreciated.

The estimated useful lives for the current and comparative years are as follows:

	Years
Buildings and mobile cabinets)	6 – 33
Machinery and equipment	2 – 30
Furniture and office equipment	5 – 20
Motor vehicles	4 – 5

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively, if required. For discussion on impairment assessment of property, plant and equipment, please refer Note 3.9.

#### (d) Capital work in progress

Assets in the course of construction are capitalised in the capital work-in-progress account. The asset under construction is transferred to the appropriate category in property, plant and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management.

The cost of an item of capital work-in-progress comprises its purchase price, construction / development cost and any other directly attributable to the construction or acquisition of an item intended by management.

Borrowing costs related to qualifying assets are capitalised as part of the cost of the qualified assets until the commencement of commercial production. Capital work-in-progress is measured at cost less any recognised impairment.

### 3.4 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets comprise software, which have finite lives and are amortised over five years from the implementation date. The amortization expense on intangible assets is recognised in the profit or loss in the expense category consistent with the function of the intangible asset. These are tested for impairment whenever there is an indication that the intangible may be impaired. The amortization period and the amortization method for an intangible asset, with a finite useful life, is reviewed at least annually. Any change in the estimated useful life is treated as a change in accounting estimate and accounted for prospectively.

### 3.5 Inventories

Raw materials and spares, work in progress and finished goods are measured at the lower of cost and net realisable value.

Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### 3.6 Cash and cash equivalents

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

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

### 3.7 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary assets measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e. the translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

### 3.8 Financial instruments

IFRS 9 largely retains the previous requirements under IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets classified as held to maturity, loans and receivables and available for sale.

#### (i) Financial assets

##### Classification

On initial recognition, a financial asset is classified in the following categories:

- subsequently measured at amortised cost;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – debt instrument;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – equity instrument; or
- subsequently measured at fair value through profit and loss ("FVPL").

The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

#### Debt instruments

A 'debt instrument' is classified as subsequently measured at amortised cost if both the following conditions are met:

(a) The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and

(b) Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

If the above two conditions are not met, the 'debt instrument' is classified as subsequently measured at fair value, either at FVPL or FVOCI, based on the business model.

#### (a) Measurement

##### Initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

#### Subsequent measurement

##### Debt instruments subsequently measured at amortised cost

This category is the most relevant to the Group. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss. This category generally applies to trade and other receivables, bank balances, security deposits, advances to employees.

##### Instruments subsequently measured at fair value

For this category, if applicable, such financial assets are subsequently measured at fair value at the end of each reporting period, with all changes recognised either in profit or loss for equity instruments classified as FVPL, or within other comprehensive income for equity instruments classified as FVOCI.

#### (b) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or,
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### (c) Impairment

The Group applies the expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets that are debt instruments, and are measured at amortised cost (e.g. deposits, trade and other receivables and bank balances). The Group follows 'simplified approach' for recognition of impairment loss allowance on trade receivables, if they do not contain a significant financing component.

The application of a simplified approach does not require the Group to track changes in credit risk. Rather, it recognises impairment loss allowance based on lifetime ECL at each reporting date, right from its initial recognition. Lifetime ECL is the expected credit loss resulting from all possible default events over the expected life of a financial instrument.

The Group uses a provision matrix in the calculation of the ECL on financial assets to estimate the lifetime expected credit losses, applying certain provision rates to respective contractual past due aging buckets. The provision matrix was developed considering probability of default and loss given default which were derived from historical data of the Group and are adjusted to reflect the expected future outcome.

ECL impairment loss allowance (or reversal) recognised during the period is recognised as income/ expense in profit or loss.

#### (ii) Financial liabilities

Financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group classifies non-derivative financial liabilities as 'financial liabilities at amortized cost'. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the EIR method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

#### (iii) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### (iv) Derivative financial instruments

Derivative financial instruments, principally representing profit rate swaps, are initially recorded at fair value on the date a derivative contract is entered into and re-measured to their fair value at the end of each subsequent reporting periods. Changes in the fair value of derivative financial instruments, as these are not designated as a hedging instrument, are recognised in profit or loss as they arise and the resulting positive and negative fair values are reported under assets and liabilities, respectively, in the consolidated statement of financial position.

### 3.9 Leases

The Group leases various employees' accommodation, warehouses buildings and landfills. Rental contracts are typically made for fixed periods of 1 to 15 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on present value. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

### 3.10 Impairment of assets

The carrying amounts of the Group's non-financial assets (other than goodwill and intangible assets with indefinite useful lives, if any which are tested at least annually for impairment), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds the recoverable amount, which is the higher of the fair value less costs of disposal and value in use. The fair value less costs of disposal is arrived based on available data from binding sales transactions at arm's length, for similar assets. The value in use is arrived based on a discounted cash flow (DCF) model, whereby the future expected cash flows discounted using a pre- tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of goodwill, if any, allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

### 3.11 Employee benefits

#### Short-term employee benefits

Short-term employee benefits are expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### Post-employment benefits

##### Defined benefit plans

The Group operates a single post-employment benefit scheme of defined benefit plan, driven by the Labor Laws and Workman Laws of the Kingdom of Saudi Arabia, which is based on most recent salary and number of service years. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the Labor Law of Saudi Arabia.

The Group's obligation under employee end of service benefit plan is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Re-measurements of the defined benefit liability, which comprise actuarial gains and losses are recognised immediately in other comprehensive income. The Group determines the interest expense on the defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then defined benefit liability, taking into account any changes in the defined benefit liability during the period as a result of benefit payments. Interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

### Proposed Employee Share Option Scheme (ESOP)

The Company has a proposed ESOP scheme for which required approvals were still in progress as of 31 December 2020. See also Note 3.21.

### 3.12 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

### 3.13 Revenue

Revenue comprises of sales to customers and is measured based on the considerations specified in contracts with customers and excludes rebates and amounts, if any, collected on behalf of third parties. Certain customers are eligible for volume discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Revenue is recognised, when (or as) the Group satisfies the performance obligations as specified in the contract with the customer (buyer), when the seller has transferred to the customer control over the promised goods and services, either:

- at a point in time or
- over a time basis equivalent to the stage of completion of the service.

#### The Group recognises revenue from the following major sources:

##### a) Sale of the following goods directly to the customers:

- Sale of container board and industrial paper
- Whole and retail sales of paper, carton and plastic waste

##### b) Rendering of the following services directly to the customers:

##### • Transportation of goods

The timing and measurement of revenue recognition for the above-mentioned main sources of revenue (i.e. sales of goods and rendering of services directly to customers) are as follows:

### Sale of goods directly to the customers

Revenue is recognised when a customer obtains control of the goods or services (i.e. when it has the ability to direct the use of and obtain benefits from the goods or services). Customers obtain control when goods are delivered to and have been accepted by the customers as per the applicable delivery terms, and accordingly, revenue is recognised at that point-in-time.

Invoices are usually payable within the credit period agreed with the customer which may vary from one customer to another. The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

### Rendering of services – transportation of goods to customers

The Group sells a significant proportion of its goods on Cost and Freight ocean transport ("CFR") and Cost, Insurance and Freight ocean transport ("CIF") as per the International Commercial Terms ("Incoterms") and therefore, the Group is responsible for providing shipping services after the date at which control over the promised goods have passed to the customer at the loading port. The Group is therefore, responsible for the satisfaction of two performance obligations under its CFR and CIF contracts with the customers and recognises revenue as follows:

- sale and delivery of goods at the loading port resulting in the transfer of control over such promised goods to the customer and recognizing the related revenue at a point in time basis; and
- shipping services for the delivery of the promised goods to the customer's port of destination and recognizing the related revenue over a time basis, equivalent to the stage of completion of the services.

The physical loading of the approved promised goods on the vessel, satisfies the Group's performance obligation and triggers the recognition of revenue at a point in time. The Group has full discretion over the price to sell the goods.

The selling price includes revenue generated for the sale of goods and transportation services depending on the Incoterms contained in the contract with the customer. The selling price is therefore unbundled or disaggregated into these two performance obligations, being the sale of the promised goods and the transportation thereof and it is being disclosed separately.

The Group recognises a trade receivable for the sale and delivery of the promised goods when the goods, delivered to the loading port, are loaded on to the vessel as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

However, the trade receivable related to the transportation service are recognised over time, if material, based on the stage of completion of service which is assessed at the end of each reporting period. The disaggregation between separate performance obligations is done based on the standalone selling price.

All shipping and handling costs incurred by the Group, in relation to the satisfaction of performance obligation for the transportation of the promised goods, under CFR and CIF contracts with the customers, are recognised as selling expenses in the consolidated statement of comprehensive income.

### 3.14 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

IAS 23, Borrowing costs requires any incremental transaction cost to be amortised using the Effective Interest Rate (EIR). The Group accounts for finance cost (Interest cost and amortization of transaction cost) as per the effective interest rate method. For floating rate loans, EIR determined at initial recognition of loan liabilities is used for the entire contract period. General and specific borrowing cost directly related for any qualifying assets are capitalised as part of the cost of the asset.

### 3.15 Zakat

The Company and its subsidiaries are subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense for the Company and zakat related to the Company's ownership in the subsidiaries is charged to the profit or loss. Additional zakat, if any, is accounted for when determined to be required for payment.

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

### 3.16 Selling and distribution expenses

Selling and distribution expenses comprise of all costs for selling, distribution and transportation of the Group's products and include other sales related expenses. Allocation between cost of sales, selling and distribution expenses and general and administrative expenses are made on a consistent basis, when required.

### 3.17 General and administrative expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of sales or the selling and distribution activity of the Group. Allocation between cost of sales, selling and distribution expenses and general and administrative expenses are made on a consistent basis, when required.

### 3.18 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data 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, adjusted for own shares held.

### 3.18 Earnings per share (continued)

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, if any.

### 3.19 Segment reporting

Operating Segment

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

### An operating segment is group of assets and operations:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

### 3.20 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### 3.21 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost. Treasury shares are presented as a deduction from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised as share premium or discount which is presented in equity. These treasury shares are purchased in advance for the proposed Employee Share Option Programme ("ESOP") for which required approvals were still in progress as of 31 December 2020.

### 3.22 Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by shareholders of the Company.

## 4. SEGMENT INFORMATION

The Group has two operating and reportable segments, i.e. manufacturing and trading, 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 Chairman of the Board of Directors and top management (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:

	Manufacturing	Trading	Elimination	Total
<b>Results for the year ended</b>				
<b>31 December 2020</b>				
Revenues	710,326,408	203,381,403	(189,022,399)	724,685,412
External revenues	710,326,408	14,359,004	-	724,685,412
Segment profit (loss) before zakat	24,687,279	(18,492,831)	18,498,012	24,692,460
Zakat	4,511,582	5,181	-	4,516,763
Financial costs	17,315,131	1,584,043	-	18,899,174
Additions to property, plant and equipment	133,087,250	10,249,536	-	143,336,786
Depreciation and amortization	94,247,326	11,655,972	-	105,903,298
<b>Results for the year ended</b>				
<b>31 December 2019</b>				
Revenues	669,888,517	238,233,825	(217,044,849)	691,077,493
External revenues	669,888,517	21,188,976	-	691,077,493
Segment profit (loss) before zakat	6,900,858	1,727,473	(1,590,570)	7,037,761
Zakat	772,886	136,903	-	909,789
Financial costs	24,149,701	672,142	-	24,821,843
Additions to property, plant and equipment	98,555,707	6,768,485	-	105,324,192
Depreciation and amortization	82,066,180	13,759,077	-	95,825,257
<b>As of 31 December 2020</b>				
Total assets	1,495,085,743	145,854,491	(63,580,737)	1,577,359,497
Total liabilities	743,092,751	108,698,814	(26,425,060)	825,366,505
<b>As of 31 December 2019</b>				
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 market and foreign markets in Middle East, Africa, Asia and Europe. Export external sales during the year ended 31 December 2020 amounted to Saudi Riyals 300.74 million (2019: Saudi Riyals 352.71 million). Local external sales during the year ended 31 December 2020 amounted to Saudi Riyals 423.94 million (2019: Saudi Riyals 338.37 million).

Chief Financial Officer

Chief Executive Officer

Chairman of the Board

## 5. PROPERTY, PLANT AND EQUIPMENT

### PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and mobile cabinets	Machinery and equipment	Furniture and office equipment	Motor vehicles	Capital work in progress	Total
<b>At 1 January 2019</b>							
Cost	98,020,400	180,397,142	1,416,686,116	28,856,911	44,519,616	51,729,911	1,820,210,096
Accumulated depreciation	-	(52,430,375)	(664,616,814)	(25,650,882)	(36,643,559)	-	(779,341,630)
<b>Net book value</b>	<b>98,020,400</b>	<b>127,966,767</b>	<b>752,069,302</b>	<b>3,206,029</b>	<b>7,876,057</b>	<b>51,729,911</b>	<b>1,040,868,466</b>
<b>Year ended 31 December 2019</b>							
Opening net book value	98,020,400	127,966,767	752,069,302	3,206,029	7,876,057	51,729,911	1,040,868,466
Additions	-	742,703	26,521,077	1,711,851	3,335,212	73,013,349	105,324,192
Transfers							
- Cost	-	-	17,934,516	-	-	(17,934,516)	-
Disposals							
- Cost	-	-	(6,655,727)	-	(126,050)	-	(6,781,777)
- Accumulated depreciation	-	-	6,198,566	-	54,622	-	6,253,188
Write off							
- Cost	-	(402,100)	(1,270,840)	-	(190,500)	-	(1,863,440)
- Accumulated depreciation	-	38,200	120,729	-	174,892	-	333,821
Depreciation charge	-	(5,839,738)	(77,530,349)	(1,351,198)	(2,528,721)	-	(87,250,006)
<b>Closing net book value</b>	<b>98,020,400</b>	<b>122,505,832</b>	<b>717,387,274</b>	<b>3,566,682</b>	<b>8,595,512</b>	<b>106,808,744</b>	<b>1,056,884,444</b>
<b>At 31 December 2019</b>							
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)
<b>Net book value</b>	<b>98,020,400</b>	<b>122,505,832</b>	<b>717,387,274</b>	<b>3,566,682</b>	<b>8,595,512</b>	<b>106,808,744</b>	<b>1,056,884,444</b>

## PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Buildings and mobile cabinets	Machinery and equipment	Furniture and office equipment	Motor vehicles	Capital work in progress	Total
<b>Year ended 31 December 2020</b>							
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	1,470,908	13,278,446	3,363,723	1,690,420	43,580,545	143,336,786
Re-negotiation remeasurement adjustment (note 5.2)	(8,268,842)	-	-	-	-	-	(8,268,842)
Transfers							
- Cost	-	7,385,645	39,994,265	2,200	-	(47,382,110)	-
Disposals							
- Cost	-	(567,288)	(9,595,349)	(1,294,336)	(4,426,129)	-	(15,883,102)
- Accumulated depreciation	-	567,268	9,202,531	1,285,358	4,409,417	-	15,464,574
Write off							
- Cost	-	-	(344,838)	(10,992,892)	(1,959,966)	-	(13,297,696)
- Accumulated depreciation	-	-	323,374	10,453,636	1,824,974	-	12,601,984
Depreciation charge	-	(5,965,834)	(88,369,466)	(1,468,338)	(2,112,488)	-	(97,916,126)
<b>Closing net book value</b>	<b>169,704,302</b>	<b>125,396,531</b>	<b>681,876,237</b>	<b>4,916,033</b>	<b>8,021,740</b>	<b>103,007,179</b>	<b>1,092,922,022</b>
<b>At 31 December 2020</b>							
Cost	169,704,302	189,027,010	1,496,547,666	21,647,457	42,842,603	103,007,179	2,022,776,217
Accumulated depreciation	-	(63,630,479)	(814,671,429)	(16,731,424)	(34,820,863)	-	(929,854,195)
<b>Net book value</b>	<b>169,704,302</b>	<b>125,396,531</b>	<b>681,876,237</b>	<b>4,916,033</b>	<b>8,021,740</b>	<b>103,007,179</b>	<b>1,092,922,022</b>

**5.1** During 2020, finance costs of Saudi Riyals 2.8 million is capitalized as part of property, plant and equipment (2019: Saudi Riyals 2.5 million).

**5.2** During 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 during the year, the Company re-negotiated with the seller on cash value and payment terms and accordingly the revised cash value is reduced to SR 71,057,470 and total purchase price of SR 74,859,876 payable in unequal annual instalments ending on 31 July 2027 (note 21).

Capital work-in-progress as at 31 December 2020 includes costs incurred related to the ongoing projects for plant and machinery. The projects are expected to complete during 2021. See also note 34 for capital commitments.

**5.4** All land, buildings and mobile cabinets, 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 (see note 19).

## 6. RIGHT OF USE ASSETS

	Leased land	Buildings	Total
<b>At 1 January 2019</b>			
Accumulated depreciation	47,168,541	3,307,027	50,475,568
	-	-	-
<b>Net book value</b>	<b>47,168,541</b>	<b>3,307,027</b>	<b>50,475,568</b>
Year ended 31 December 2019			
Opening net book value	47,168,541	3,307,027	50,475,568
Re-measurement	-	(150,000)	(150,000)
Depreciation charge	(5,320,806)	(1,691,761)	(7,012,567)
	41,847,735	1,465,266	43,313,001
<b>At 31 December 2019</b>			
Cost	47,168,541	3,157,027	50,325,568
Accumulated depreciation	(5,320,806)	(1,691,761)	(7,012,567)
<b>Net book value</b>	<b>41,847,735</b>	<b>1,465,266</b>	<b>43,313,001</b>
Year ended 31 December 2020			
Opening net book value	41,847,735	1,465,266	43,313,001
Additions	231,079	1,165,825	1,396,904
Re-measurement			
- Cost	628,402	251,159	879,561
- Accumulated depreciation	(809,855)	364,703	(445,152)
Depreciation charge	(5,768,331)	(1,090,511)	(6,858,842)
	36,129,030	2,156,442	38,285,472
<b>At 31 December 2020</b>			
Cost	48,028,022	4,574,011	52,602,033
Accumulated depreciation	(11,898,992)	(2,417,569)	(14,316,561)
<b>Net book value</b>	<b>36,129,030</b>	<b>2,156,442</b>	<b>38,285,472</b>

## 7. INTANGIBLE ASSETS

Computer software and ERP	
<b>At 1 January 2019</b>	
Cost	7,813,426
Accumulated amortization	(4,232,605)
<b>Net book value</b>	<b>3,580,821</b>
Year ended 31 December 2019	
Opening net book value	3,580,821
Amortization	(1,562,684)
	2,018,137
<b>At 31 December 2019</b>	
Cost	7,813,426
Accumulated amortization	(5,795,289)
<b>Net book value</b>	<b>2,018,137</b>
<b>Year ended 31 December 2020</b>	
Opening net book value	2,018,137
Amortization	(1,128,330)
	889,807
<b>At 31 December 2020</b>	
Cost	7,813,426
Accumulated amortization	(6,923,619)
<b>Net book value</b>	<b>889,807</b>

## 8. RIGHT OF USE ASSETS

	31 December 2020	31 December 2019
Interest rate swaps – (Negative)/positive fair value	<b>(364,800)</b>	(240,041)
Less: Current portion interest rate swaps – Negative fair value	<b>364,800</b>	15,416
Non-current interest rate swaps – (Negative)/positive fair value	-	(224,625)
	-----	-----

The Company entered into interest rate swap (IRS) agreements with commercial banks to convert floating rate interest to fixed rate interest arrangement. The total contracts' amount is Saudi Riyals- 300 million (2019: Saudi Riyal 300 million) out of which the outstanding value is Saudi Riyals 100 million at 31 December 2020 (2019: Saudi Riyals 140 million).

## 9. INVENTORIES

	31 December 2020	31 December 2019
Raw materials	<b>62,685,678</b>	75,305,340
Finished goods	<b>26,953,341</b>	64,184,390
Goods in transit	<b>15,107,658</b>	9,900,292
Work-in-progress	<b>2,478,891</b>	2,384,602
Consumable spare parts, not held for sale	<b>63,167,147</b>	59,638,231
	<b>170,392,715</b>	211,412,855
Less: Allowance for slow moving inventories	<b>(3,227,034)</b>	(3,338,208)
	<b>167,165,681</b>	208,074,647
	-----	-----

Movement in allowance for slow moving inventories is as follows:

	2020	2019
1 January	<b>3,338,208</b>	3,409,175
Additions	<b>5,171,569</b>	3,600,000
Write-offs	<b>(5,282,743)</b>	(3,670,967)
31 December	<b>3,227,034</b>	3,338,208
	-----	-----

## 10. TRADE RECEIVABLES

	31 December 2020	31 December 2019
Trade receivables – gross	<b>192,594,487</b>	166,622,529
Allowance for impairment	<b>(6,544,493)</b>	(6,740,659)
	<b>186,049,994</b>	<b>159,881,870</b>
	-----	-----

Movement in allowance for impairment of trade receivables is as follows:

	31 December 2020	31 December 2019
1 January	<b>6,740,659</b>	6,736,472
(Reversals)/additions	<b>(196,166)</b>	4,187
31 December	<b>6,544,493</b>	<b>6,740,659</b>
	-----	-----

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. The average credit period on sales of goods is less than one year and therefore are all classified as current, and are mostly secured through trade insurance. Trade receivables are recognised at the amount of consideration that is unconditional. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Before accepting any new credit customer, the Group uses an internal credit review system to assess the potential customer's credit quality and defines credit limits by customer.

No interest is charged on trade receivables balances that are overdue. The overdue amounts are constantly monitored by the management and a provision towards expected credit loss is made in the books if required.

The Group has applied IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables based on a provision matrix. The provision matrix takes into account historical credit loss experience and is adjusted for average historical recovery rates. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and is based on the ageing of the days the receivables are past due and the rates as calculated in the provision matrix. On that basis, the loss allowance as at 31 December 2020 and 31 December 2019 was determined as follows:

Ageing	Gross carrying amount	Expected Credit loss range (%)	Loss allowance
<b>As at 31 December 2020:</b>			
Within the credit period	<b>145,154,837</b>	0.49% - 15.34%	640,628
1-90 days past due	<b>24,179,627</b>	1.68% - 15.34%	317,785
91-180 days past due	<b>12,832,351</b>	8.18% - 15.79%	982,189
181- 270 days past due	<b>3,718,454</b>	20.61% - 24.23%	876,982
271- 360 days past due	<b>631,015</b>	20.61% - 90.49%	211,974
More than 1 year past due	<b>6,078,203</b>	30.98% - 94.24%	3,514,935
		-----	-----
<b>Total</b>	<b>192,594,487</b>		<b>6,544,493</b>

Ageing	Gross carrying amount	Expected Credit loss range (%)	Loss allowance
<b>As at 31 December 2020:</b>			
Within the credit period	115,305,037	0.33% - 9.38%	399,874
1-90 days past due	28,968,888	1.35% - 8.69%	462,712
91-180 days past due	11,073,964	6.73% - 19.76%	771,789
181- 270 days past due	2,781,594	9.90% - 25.61%	532,256
271- 360 days past due	2,248,257	10.60% - 82.93%	1,112,308
More than 1 year past due	6,244,789	15.91% - 90.00%	3,461,720
		-----	-----
<b>Total</b>	<b>166,622,529</b>		<b>6,740,659</b>

Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses in profit or loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

## 11. PREPAYMENT AND OTHER RECEIVABLES

	31 December 2020	31 December 2019
Prepaid expenses	<b>8,925,805</b>	11,635,397
Net Value Added Tax (VAT) receivables	<b>2,380,017</b>	1,857,540
Deposits with suppliers	<b>510,103</b>	508,997
Others	<b>1,418,777</b>	1,925,984
	<b>13,234,702</b>	<b>15,927,918</b>

## 12. OTHER CURRENT ASSETS

	Note	2020	2019
Advances to suppliers		<b>30,077,337</b>	48,394,695
Receivable from Higher Institute for Paper and Industrial Technology (HIPIT)	(a)	-	14,234,712
Advances to employees		<b>6,291,467</b>	6,328,619
		<b>36,368,804</b>	68,958,026
Less: allowance for impairment loss on advances	(b)	<b>(3,017,838)</b>	(1,500,206)
		<b>33,350,966</b>	67,457,820
		-----	-----

(a) This balance represents the expenses paid by the Company on behalf of HIPIT. HIPIT is an independent not-for-profit vocational training and administrative training institute, which is supported by the Group along with other local companies as part of their Corporate Social Responsibility project.

(b) Movement in allowance for impairment loss on advances is as follows:

	2020	2019
1 January	<b>1,500,206</b>	-
Additions	<b>2,090,152</b>	1,500,206
Write-offs	<b>(572,520)</b>	-
31 December	<b>3,017,838</b>	1,500,206
Impairment loss charged to:		
Cost of sales	<b>1,297,130</b>	-
General and admin expense	<b>793,022</b>	1,500,206
Total	<b>2,090,152</b>	1,500,206

## 13. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT AND LOSS

During 2017, the Company acquired the units of an unlisted open-ended mutual fund. As at 31 December 2020, the fair value of the investment is Saudi Riyals 5,581 (2019: Saudi Riyals 39,434).

Fair value gains of Saudi Riyals 12,147 (2019: Saudi Riyals 15,178) have been recognised in the profit or loss.

During 2020, the group invested in equity shares of listed companies amounting Saudi Riyals 2,404,300 (2019: Saudi Riyals 24,065,394) and sold before year end. Group has recognised gains on sale of these equity shares amounting to Saudi Riyals 171,535 (2019: Saudi Riyals 3,250,266) in profit or loss during the year 2020.

## 14. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Cash in hand	<b>1,780,115</b>	3,154,859
Cash at bank	<b>43,675,157</b>	20,058,624
	<b>45,455,272</b>	23,213,483
	-----	-----

## 15. SHARE CAPITAL

At 31 December 2020, the Company's authorized and issued share capital of Saudi Riyals 500 million (2019: Saudi Riyals 500 million) consists of 50 million (2019: 50 million) fully paid shares of Saudi Riyals 10 each.

The Company has only one class of equity shares having a par value of Saudi Riyals 10 per share. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

## 16. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of profit for the year until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

## 17. TREASURY SHARES

Treasury shares are shares purchased by the Company for the purpose of issuing shares under the proposed ESOP for which required approvals were still in progress as of 31 December 2020. The Company purchased 300,000 shares at prevailing market rates at the time of purchase.

## 18. RETAINED EARNINGS

Other comprehensive loss accumulated in retained earnings:

	31 December 2020	31 December 2019
Actuarial losses on re-measurements of defined benefits liability	<b>7,713,438</b>	8,152,518

## 19. LONG TERM BORROWINGS

	31 December 2020	31 December 2019
Saudi Industrial Development Fund (SIDF)	<b>106,962,548</b>	72,251,125
Islamic banking facilities (Tawarruq)	<b>389,417,973</b>	412,284,210
Long-term borrowings	<b>496,380,521</b>	484,535,335
Less: Current portion shown under current liabilities	<b>(192,222,731)</b>	(141,617,251)
Long term borrowings shown under non-current liabilities	<b>304,157,790</b>	342,918,084
	-----	-----
<b>Reconciliation of cash movement of borrowings</b>	<b>2020</b>	2019
Balance at beginning of year	<b>484,535,335</b>	488,713,857
Disbursements	<b>87,353,783</b>	205,000,000
Repayment of principal instalments	<b>(73,142,430)</b>	(209,095,715)
Movement in accrued financial charges	<b>207,553</b>	(1,057,604)
Movement in deferred financial charges	<b>(2,573,720)</b>	974,797
	-----	-----
Balance at end of year	<b>496,380,521</b>	484,535,335
	-----	-----

(a) The Company signed a loan agreement with SIDF amounting to Saudi Riyals 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.

During 2020, the Company has obtained new facility from SIDF amounting Saudi Riyals 35.3 million to finance the construction of manufacturing facilities. The loan is repayable in unequal semi-annual instalments up to February 2025.

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.

## LONG TERM BORROWINGS (continued)

(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 ("SIBOR") 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 2025.

The above loans and facilities include certain 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 was not in compliance related to Debt Service Coverage Ratio at 31 December 2020 and has taken waiver letters in this regard from the respective banks, before end of the financial year.

The loans are denominated in Saudi Riyals and US Dollars as follows:

	31 December 2020	31 December 2019
Long term borrowings		
Saudi Riyals	<b>487,577,094</b>	463,202,058
US Dollars	<b>8,803,427</b>	21,333,277
<b>Total</b>	<b>496,380,521</b>	<b>484,535,335</b>

The scheduled maturities of the long-term borrowings outstanding are as follows:

	Loan's principal	Deferred financial charges	Accrued financial charges	Net loan amount
<b>Year ending 31 December 2020:</b>				
2021	191,756,723	(1,094,522)	1,560,530	192,222,731
2022	150,721,583	(1,043,871)	-	149,677,712
2023	105,846,154	(752,757)	-	105,093,397
2024	38,836,538	(287,452)	-	38,549,086
2025	10,853,783	(16,188)	-	10,837,595
<b>Total</b>	<b>498,014,781</b>	<b>(3,194,790)</b>	<b>1,560,530</b>	<b>496,380,521</b>
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	Loan's principal	Deferred financial charges	Accrued financial charges	Net loan amount
<b>Year ending 31 December 2019:</b>				
2021	140,678,856	(414,582)	1,352,977	141,617,251
2022	153,660,285	(82,258)	-	153,578,027
2023	120,714,287	(74,949)	-	120,639,338
2024	62,500,000	(49,281)	-	62,450,719
2025	6,250,000	-	-	6,250,000
<b>Total</b>	<b>483,803,428</b>	<b>(621,070)</b>	<b>1,352,977</b>	<b>484,535,335</b>
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## 20. LEASE LIABILITIES

Movement in lease liabilities is summarized as follows:

	2020	2019
At the beginning of the year	43,353,090	49,981,515
Additions	1,396,904	-
Remeasurement	956,940	(150,000)
Accretion of interest	1,610,737	707,275
Payments	(7,327,785)	(7,185,700)
At the end of the year	39,989,886	43,353,090

Movement in lease liabilities is summarized as follows:

As at 31 December 2020	Principal amount	Interest	charges
Current portion	10,289,317	(1,334,927)	8,954,390
Non-current portion	35,130,864	(4,095,368)	31,035,496
	45,420,181	(5,430,295)	39,989,886

As at 31 December 2019	Principal amount	Interest	charges
Current portion			
Non-current portion	7,146,049	(1,689,853)	5,456,196
	45,402,226	(7,505,332)	37,896,894
	52,548,275	(9,195,185)	43,353,090

## 21. OTHER FINANCIAL LIABILITY

During the year ended 31 December 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 71,057,470 and total purchase price of SR 74,859,876 payable in unequal annual instalments ending on 31 July 2027.

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

	As at 31 December 2019
Total liability	46,502,845
Less: current portion shown under current liabilities	(6,579,796)
	-
Long term liability shown under non-current liabilities	39,923,049

The scheduled maturities of the liability related to land purchase arrangements as at year ended 31 December 2020 are as follows:

	Gross amount	Discounting impact	Net liability
Current portion	7,485,988	(906,192)	6,579,796
Non-current portion	42,420,596	(2,497,547)	39,923,049
		-	
	49,906,584	(3,403,739)	46,502,845

## 22. EMPLOYEES END OF SERVICE BENEFITS

Movement in provision for employees' end of service benefits is summarized as follows:

	2020	2019
At beginning of year	43,932,711	39,912,063
Current year charge:		
-	4,725,005	4,951,288
-	(1,302,316)	-
-	980,593	1,544,647
	4,403,282	6,495,935
Re-measurement (gain)/losses:		
-	(253,589)	(333,053)
-	(185,491)	1,395,874
	(439,080)	1,062,821
Payments	(3,877,901)	(3,538,108)
At end of year	44,019,012	43,932,711

### Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date:

	2020	2019
Discount rate	%0.95 to %1.30	%2.30 to %2.45
Future salary growth	%1.55 to %2.05	%2.90 to %3.20

### Sensitivity analysis

Year ending 31 December 2020:	31 December 2020		31 December 2019	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(2,642,551)	2,523,422	(2,833,254)	2,425,469
Future salary growth (1% movement)	2,704,125	(2,854,096)	2,602,204	(3,040,942)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

The expected maturity analysis of undiscounted employee benefits obligations is as follows:

	2020	2019
Less than a year	8,460,542	8,547,278
Between 5 - 1 years	15,615,298	15,661,607
Over 5 years	22,760,109	26,608,221

## 23. ZAKAT

### 23.1 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

### 23.2 Provision for zakat

	2020	2019
At the beginning of the year	1,437,193	4,020,197
Provisions		
- Provision for current year	4,693,350	1,437,193
- Adjustment related to prior years	(176,587)	(527,404)
Payments	(1,260,606)	(3,492,793)
At the end of the year	4,693,350	1,437,193

### 23.1 Status of final 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.

During July 2020, the GAZT has issued an assessment for the year 2014, without any additional claim on zakat.

During December 2020, the GAZT issued an assessment for the years ended 31 December 2015 to 2018 claiming SR 30 million in additional Zakat. The Company duly submitted its objection during February 2021.

However, management based on GAZT regulations, interpretations and supporting documents submitted along with objections, believes that the ultimate outcome of pending assessments will not result in any material additional liability to the Company. The zakat declarations of the Company for the years 2013 to 2019 are filed with the GAZT and unrestricted zakat certificates have been obtained till 30 April 2021.

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.

## 24. SHORT TERM BORROWINGS

	31 December 2020	31 December 2019
Islamic banking facilities (Tawarruq)	85,000,000	164,119,650
Notes payable	898,111	6,557,138
Accrued financial charges	398,495	1,024,069
	86,296,606	171,700,857
	-----	-----

The Group has short-term credit facilities from commercial banks comprising of short-term loans, letters of credit and guarantees. These borrowings bear financing charges at the prevailing market rates. These facilities include certain financial covenants which require the Group to maintain certain levels of ratios. The Group is in compliance with these debt covenants at 31 December 2020. The loans are denominated in Saudi Riyals, US Dollars and Euro as follows:

	31 December 2020	31 December 2019
<b>Short-term borrowings</b>		
Saudi Riyals	85,000,000	164,119,650
US Dollars	898,111	6,557,138
Euro	398,495	1,024,069
<b>Total</b>	86,296,606	171,700,857
	-----	-----

## 25. TRADE AND OTHER PAYABLES

	31 December 2020	31 December 2019
Trade payables - third parties	66,030,620	67,947,235
Trade payables - related party (see note 35.3)	1,674,806	-
Employees related accruals	18,927,557	17,686,374
Accrued transportation expenses	4,919,964	6,356,975
Accrued sales services expenses	478,364	1,101,451
Net Value Added Tax (VAT) payables	3,411,735	-
Accrued legal and consultancy fees	430,421	485,859
Accrued directors' remuneration	-	7,000
Others	4,637,473	3,789,648
	100,510,940	97,374,542
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**26. OTHER CURRENT LIABILITIES**

	31 December 2020	31 December 2019
Advances from customers	6,405,173	2,858,770
Payable to Higher Institute for Paper and Industrial Technology (HIPIT)	203,372	-
	6,608,545	2,858,770
	-----	-----

**27. COST OF REVENUE**

	2020	2019
Material and employees' cost	394,343,014	383,742,447
Depreciation and maintenance cost	143,036,280	127,233,391
Transportation cost	12,723,589	12,278,952
Rent	1,366,674	1,276,413
Other overheads	29,966,757	24,836,421
	581,436,314	549,367,624
	-----	-----

**28. SELLING AND DISTRIBUTION EXPENSE**

	2020	2019
Transportation and shipping	37,020,344	40,069,129
Salaries and related benefits	5,692,175	6,106,575
Sales commission	1,854,780	2,641,465
Credit insurance	126,891	320,582
Depreciation and amortization	402,560	249,440
Others	2,815,592	3,910,543
	47,912,342	53,297,734

**29. GENERAL AND ADMIN EXPENSE**

	Note	2020	2019
Salaries and related benefits		30,745,247	38,367,336
Training		1,581,359	40,436
Depreciation and amortization		1,841,527	2,449,705
Directors' remuneration	35	2,593,702	2,521,267
Bank charges		2,242,855	1,844,815
Consultation fee		5,529,093	4,103,930
Government fee		960,127	1,538,506
Insurance expenses		749,740	822,372
Travel expenses		210,832	980,763
Professional fee		851,932	954,558
Communication		453,578	753,373
Repairs and maintenance		437,185	417,808
Others		3,860,726	3,993,797
		52,057,903	58,788,666
		-----	-----

**30. OTHER OPERATING INCOME - NET**

	2020	2019
Foreign currency exchange loss	(110,937)	(680,992)
Gain / (loss) on disposal of property and equipment	(661,782)	390,125
Gain on sale of investment at fair value through profit or loss	171,535	3,235,088
Fair value gain on investment at fair value through profit or loss	12,147	15,178
Loss of remeasurement of lease liabilities	522,531	-
Scrap sales	-	608,571
Others	307,880	976,456
Others	241,374	4,544,426

**31. FINANCE COSTS - NET**

	Note	2020	2019
<b>Finance costs on long-term borrowings:</b>	19		
Tawarruq		10,694,108	16,020,068
SIDF charges		1,499,045	1,844,020
Amortisation of deferred financial charges		414,583	974,797
Lease liabilities	20	1,610,737	707,275
Interest rate swap settlements		1,101,175	(772,976)
<b>Finance costs on long-term borrowings:</b>			
Tawarruq	24	3,579,526	6,048,659
		18,899,174	24,821,843
		-----	-----

## 32. EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data 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 year.

	2020	2019
Net profit for the year	<b>20,175,697</b>	6,127,972
Weighted average number of shares	<b>49,700,000</b>	49,700,000
Basic and diluted earnings per share	<b>0.41</b>	0.12

## 33. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group holds various financial instruments in the ordinary course of its activities.

### 33.1. Financial instruments by category

(a) Financial assets subsequently measured at amortised cost:

	Note	2020	2019
Trade receivables	10	<b>186,049,994</b>	159,881,870
Other current assets (Advances to employees and receivable from HIPIT)	12	<b>6,291,467</b>	19,903,331
Cash and cash equivalents	14	<b>45,455,272</b>	23,213,483
		<b>237,796,733</b>	202,998,684

(b) Financial assets at fair value through profit or loss:

	Note	31 December 2020	31 December 2019
Investments at fair value through profit or loss	13	<b>5,581</b>	39,434
		-----	-----

(c) Financial liabilities at fair value through profit or loss:

	Note	31 December 2020	31 December 2019
Derivative financial instrument – interest rate swaps	8	<b>364,800</b>	240,041
		-----	-----

(d) Financial liabilities at amortised cost:

	Note	31 December 2020	31 December 2019
Borrowings	23, 19	<b>582,677,127</b>	656,236,192
Trade and other payables	24	<b>100,510,940</b>	97,374,542
Lease liabilities	20	<b>39,989,886</b>	43,353,090
Other financial liability	21	<b>46,502,845</b>	-
		<b>769,680,798</b>	796,963,824
		-----	-----

The carrying amount of financial assets and liabilities approximates their fair value. Financial assets are not considered to pose a significant credit risk. Trade receivables are due from customers who have been assessed for credit worthiness prior to entering into transactions with them.

### 33.2 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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group fair values the derivative financial instruments and investment at fair value through profit or loss. The fair value of derivative financial instrument 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 assets value (NAV) communicated by the fund manager. The fair values under Level 2 were as follows:

Level 2	31 December 2020	31 December 2019
Derivative financial instruments – (Negative)/positive value	<b>(364,800)</b>	<b>(240,041)</b>
Investments at fair value through profit or loss	<b>5,581</b>	39,434
	-----	-----

During the year ended 31 December 2020, there were no movements between the levels.

## 34. COMMITMENT AND CONTINGENCIES

- At 31 December 2020, the Group had outstanding letters of credit of Saudi Riyals 0.68 million (2019: Saudi Riyals 2.77 million) and letters of guarantee of Saudi Riyals 5.12 million (2019: Saudi Riyals 2.71 million) that were issued in the normal course of the business.
- The capital expenditure contracted by the Group but not incurred till 31 December 2020 was approximately Saudi Riyals 55.1 million (2019: Saudi Riyals 33.8 million).

## 35. RELATED PARTIES

### 35.1 Transactions with key management personnel

Key management personnel compensation comprised the following:

	2020	2019
Short term benefits	10,418,164	10,682,129
Post-employment benefits	226,800	279,268
Termination benefits	500,756	611,097
	11,145,720	11,572,494
	-----	-----

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

### 35.2 Related parties' transactions

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

Related party	Description of transaction	Relationship	2020	2019
Al Masirah International Industrial Company	Purchase of materials	Company of chairman board of directors	8,722,682	-
Directors	Directors remuneration	Directors	2,593,702	2,521,267

### 35.2 Related parties' balances

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

Related party	31 December 2020	31 December 2019
Advances to key management personnel	419,980	626,515
Accrued directors' remuneration	-	(7,000)
Al Masirah International Industrial Company	(1,674,806)	-
	-----	-----

## 36. 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.

## 37. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group also uses derivative financial instruments to hedge certain risk exposures.

### 37.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is represented by interest rate risk, currency risk and other price risk.

### 37.2 Interest rate risk

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group manages the interest rate risk by regularly monitoring the interest rate profiles of its interest-bearing financial instruments as and entering into interest rates swap arrangements.

At 31 December 2020, if interest rates had been 1% higher/lower with all other variables held constant, future interest on outstanding loans (excluding loans hedged through interest rates swaps arrangements) will increase/decrease by Saudi Riyals 5,385,098 (2019: Saudi Riyals 4,236,083).

### 37.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars during the year and accordingly the Group has no significant exposure to other foreign currencies at the year ended 31 December 2020 and 2019. Since Saudi Riyal is pegged to the US Dollar, the Group is not exposed to significant foreign currency risk. Exposure to Euro at the end of 2020 and 2019 was not significant.

### 37.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The management continuously monitors the credit exposure towards the customers and makes allowances against those balances considered doubtful of recovery using the expected credit loss model. To mitigate the risk, the Group has developed a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history. Outstanding customer receivables are regularly monitored. Most of the customers are secured, where possible, by way of inland letters of credit, cash security deposit, bank guarantees and insurance guarantees.

The Group's gross maximum exposure to credit risk at the reporting date is as follows:

	31 December 2020	31 December 2019
<b>Financial assets</b>		
Trade receivables	<b>186,049,994</b>	159,881,870
Other current assets (*)	<b>5,348,616</b>	19,903,331
Cash at bank	<b>43,675,157</b>	20,058,624
Short-term investments	<b>5,581</b>	39,434
	<b>235,079,348</b>	199,883,259

(\*) Other current assets comprise of advances to employees and receivable from HIPIT (see Note 12).

### 37.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. The Group has no significant concentration of liquidity risk. For instance, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowings or reliance on a particular market in which to realize liquid assets. The following is contractual undiscounted maturity analysis of the financial liabilities of the Group as at 31 December 2020. The Group does not hold financial assets for managing liquidity risk. Hence, these risks have not been considered for maturity analysis.

31 December 2020	1 year or less	Above 1 year to 5 years	More than 5 years	Total
<b>Non derivative financial liabilities</b>				
Borrowings	<b>288,666,365</b>	<b>314,316,968</b>	-	<b>602,983,333</b>
Trade and other payables	<b>100,510,940</b>	-	-	<b>100,510,940</b>
Lease liabilities	<b>10,289,317</b>	<b>22,801,194</b>	<b>12,329,670</b>	<b>45,420,181</b>
Other financial liability	<b>7,485,988</b>	<b>29,943,952</b>	<b>12,476,644</b>	<b>49,906,584</b>
Lease liabilities	<b>406,952,610</b>	<b>367,062,114</b>	<b>24,806,314</b>	<b>798,821,038</b>
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31 December 2019	1 year or less	Above 1 year to 5 years	More than 5 years	Total
<b>Non derivative financial liabilities</b>				
Borrowings	<b>329,424,990</b>	<b>358,929,718</b>	-	<b>688,354,708</b>
Trade and other payables	<b>97,374,542</b>	-	-	<b>97,374,542</b>
Lease liabilities	<b>7,146,049</b>	<b>25,272,687</b>	<b>20,129,539</b>	<b>52,548,275</b>
Lease liabilities	<b>433,945,581</b>	<b>384,202,405</b>	<b>20,129,539</b>	<b>838,277,525</b>
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It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

## 38. CAPITAL MANAGEMENT

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

The Group manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares. The Group also monitors capital using a gearing ratio, which is net debt, interest bearing loans and borrowings including finance cost thereon, trade and other payables, less cash and bank balances. Capital signifies equity as shown in the statement of financial position plus net debt.

The capital gearing ratio is as follows:

	31 December 2020	31 December 2019
Borrowings	<b>582,677,127</b>	656,236,192
Trade and other payables	<b>100,510,940</b>	97,374,542
Other current liabilities	<b>6,608,545</b>	2,858,770
Total debt	<b>689,796,612</b>	756,469,504
Cash and cash equivalents	<b>(45,455,272)</b>	(23,213,483)
Net debt	<b>644,341,340</b>	733,256,021
Share capital	<b>500,000,000</b>	500,000,000
Statutory reserve	<b>86,237,989</b>	84,220,419
Treasury shares	<b>(6,816,812)</b>	(6,816,812)
Retained earnings	<b>172,571,815</b>	153,974,608
Net equity	<b>751,992,992</b>	731,378,215
Capital gearing ratio - %	<b>1.167</b>	0.997
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## 39. EVENTS AFTER REPORTING PERIOD

On 21 January 2021 (Corresponding to 8 Jumada II 1442H), the Group has established a subsidiary namely "Jothour for Paper Manufacturing Company" (a one-person limited liability company) with 100% ownership of Parent Company to implement the expansion project of tissue paper factory in the industrial valley of King Abdullah Economic City.

## 40. DATE OF AUTHORISATION FOR ISSUE

These consolidated financial statements were authorized for issue by the Company's Board of Directors on 16 March 2021.



**MEP CO**  
Middle East Paper Company

**2020  
ANNUAL  
REPORT**

FROM THE  
**KINGDOM**  
— TO THE —  
**WORLD**