

**SAUDI PAPER MANUFACTURING COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

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

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

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<b>INDEX</b>	<b>PAGE</b>
Independent auditor's review report on condensed consolidated interim financial statements	1-2
Condensed consolidated interim statement of financial position	3
Condensed consolidated interim statement of profit or loss and other comprehensive income	4
Condensed consolidated interim statement of changes in equity	5
Condensed consolidated interim statement of cash flows	6
Notes to the condensed consolidated interim consolidated financial statements	7 – 13

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

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

### **Introduction**

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

### **Scope of Review**

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

### **Basis for Qualified Conclusion**

- 1) Management had performed an assessment for the impairment of the Group's trade receivables as of December 31, 2019. Based on the results of this assessment, a reversal in allowance for impairment of trade receivables, amounting to SR 31.4 million, was recognised during the year ended December 31, 2019. However, management had not performed an assessment for the impairment of the Group's trade receivables as of December 31, 2018, as required by IFRS 9 - Financial instruments and had not reflected the resulting impact, if any, in the statement of financial position and statement of profit or loss for the year ended December 31, 2018 and in the accumulated losses of the Group as of January 1, 2019. Accordingly, we are unable to determine whether any adjustment to accumulated losses of the Group as of January 1, 2019 and results for the period ended March 31, 2019, is necessary.
- 2) During the year ended December 31, 2019, based on a "promise to sell agreement" the Group sold one of its subsidiary, Morocco Paper Manufacturing Company (MPMC). MPMC was previously classified as held for sale as required by IFRS 5 - "Non-Current Assets Held For Sale And Discontinued Operations" (Note 1). As of March 31, 2020, balance receivable against the sale of the subsidiary amounted to SR 13.6 million, which has not been received till the date of our review report noting that the title of ownership, as advised by the management, was transferred to the new buyer. Management of the Company has filed a lawsuit to cancel the sale agreement and made a precautionary seizure of the factory of MPMC. As of the date of our review report, these legal procedures were still in progress. We are unable, at this stage, to assess the recoverability of this receivable balance/investment. Accordingly, our conclusion is qualified in this respect.
- 3) The Group had incurred loss amounting to SR 27.47 million during the year ended December 31, 2019 (December 31, 2018: SR 114.9 million) and had accumulated losses amounting to SR 11.8 million as of December 31, 2019 (December 31, 2018: SR 136.9 million). The management of the Company performed an impairment assessment of its property, plant and equipment as at December 31, 2019 based on which no impairment loss was recognised during the year ended December 31, 2019 (December 31, 2018: SR 6.5 million). The assessment includes assumptions related to future sales volume, prices, annual growth rates, terminal growth rates, discount rates, net realizable value and other related factors.

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

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

**Basis for Qualified Conclusion (Continued)**

The outcome of these assumptions is highly dependent on the success of future operations and market conditions as estimated by management and achieving its plans in future.

**Qualified Conclusion**

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

**Material Uncertainties Related to Going Concern**

We draw your attention to Note 1 of these condensed consolidated interim financial statements which states that the current liabilities of the Group exceeded its current assets by SR 169.9 million (December 31, 2019: SR 198.3 million) mainly on account of short term loans and current portion of medium and long term loans amounting to SR 123.9 million and SR 188.6 million, respectively (December 31, 2019: SR 140 million and SR 206.6 million respectively). Additionally, the group was in breach of its loans financial covenants and in default on repayment due for its term loans by SR 27.7 million as of March 31, 2020 (December 31, 2019: SR 19.9 million). The Group is currently in the process of negotiating for the restructuring of the loans in order to resolve the breach of the loans covenants. Management believes that the Group will be successful in restructuring of loans and resolving the breach in the near future. Furthermore, management of the Company intends to revolve its short term loans. Management believes that the Group would be successful in revolving its short term loans as per its past practice. Accordingly, the accompanying condensed consolidated interim financial statements are prepared on going concern basis and the loans are continued to be classified as per their original terms of repayment. Our conclusion is not modified in respect of this matter.

**Emphasis of Matter**

We draw attention to Note 4 of these condensed consolidated interim financial statements which states that the management engaged a third party consultant for the impairment assessment of certain unutilized assets of property, plant and equipment as of December 31, 2019, amounting to SR 43.7 million. Based on the results of this assessment, management has concluded that impairment amounting SR 3.2 million was required for these unutilized assets as of December 31, 2019 (December 31, 2018: SR 36.9 million). Management is currently assessing the alternative utilization plan for these assets. Management believes that these assets have the ability to provide future economic benefits to the Group and accordingly carrying amount of such assets will not exceed their recoverable amounts as of March 31, 2020.

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Certified Public Accountant  
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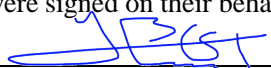
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**SAUDI PAPER MANUFACTURING COMPANY**  
(A SAUDI JOINT STOCK COMPANY)  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**  
**AS OF MARCH 31, 2020**

	Note	March 31, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	610,337,931	620,330,466
Intangible assets		16,490,489	16,859,361
Investment in an associate		19,492,491	21,252,673
<b>Total non-current assets</b>		<b>646,320,911</b>	<b>658,442,500</b>
<b>Current assets</b>			
Inventories		76,721,704	89,411,044
Trade receivables	5	142,246,751	137,972,465
Advances, prepayments and other assets		44,656,426	37,961,932
Cash and cash equivalents		19,371,832	11,959,334
<b>Total current assets</b>		<b>282,996,713</b>	<b>277,304,775</b>
<b>TOTAL ASSETS</b>		<b>929,317,624</b>	<b>935,747,275</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	1	92,000,000	92,000,000
Other reserves		(7,765,632)	(7,475,688)
Accumulated losses		(10,745,621)	(11,801,606)
<b>Equity attributable to the shareholders of the Company</b>		<b>73,488,747</b>	<b>72,722,706</b>
Non-controlling interest		1,191,500	1,222,385
<b>Total equity</b>		<b>74,680,247</b>	<b>73,945,091</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Medium and long term loans	6	374,482,155	358,824,347
Employees' end of service benefits		20,428,014	19,828,157
Lease liabilities – non current portion		6,760,902	7,569,483
<b>Total non-current liabilities</b>		<b>401,671,071</b>	<b>386,221,987</b>
<b>Current liabilities</b>			
Short-term loans	6	123,994,323	140,022,579
Medium and long term loans – current portion	6	188,658,262	206,621,768
Trade payables		76,977,792	69,607,261
Accrued expenses and other liabilities		45,148,805	42,594,780
Provision for zakat		17,655,447	16,208,696
Lease liabilities – current portion		531,677	525,113
<b>Total current liabilities</b>		<b>452,966,306</b>	<b>475,580,197</b>
<b>Total liabilities</b>		<b>854,637,377</b>	<b>861,802,184</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>929,317,624</b>	<b>935,747,275</b>

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on May 31, 2020.

  
Khalid Waleed Abo Hana  
Chief Financial Officer

  
Yousri bin Abdul Hamid Al-Bishri  
Chief Executive Officer

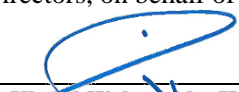
  
Fahad Mohammad Al Dawood  
Chairman

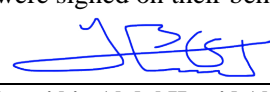
The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**SAUDI PAPER MANUFACTURING COMPANY**  
(A SAUDI JOINT STOCK COMPANY)  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2020**

	Note	Three months periods ended	
		March 31,2020 (Un-audited) SR	March 31,2019 (Un-audited) SR
Revenue	7	145,874,103	155,103,237
Cost of revenue		(104,110,556)	(130,072,890)
<b>Gross profit</b>		<b>41,763,547</b>	<b>25,030,347</b>
General and administrative expenses		(10,113,198)	(12,336,858)
Selling and distribution expenses		(14,838,748)	(13,896,537)
(Charge)/ reversal in allowance for impairment of trade receivables	5	(1,852,160)	36,116,952
<b>Operating profit</b>		<b>14,959,441</b>	<b>34,913,904</b>
Finance charges	7	(9,068,465)	(11,783,160)
Share in profit of an associate		839,818	730,000
Other (expense) / income, net		(3,017,146)	1,700,785
<b>Net profit before zakat</b>		<b>3,713,648</b>	<b>25,561,529</b>
Zakat		(2,497,067)	(2,098,370)
<b>Net profit for the period</b>		<b>1,216,581</b>	<b>23,463,159</b>
<b><u>Other comprehensive (loss) / income</u></b>			
<b>Items that may be reclassified to profit or loss</b>			
Exchange differences on translation of foreign operations and others		(360,430)	577,166
<b>Other comprehensive (loss) / income for the period</b>		<b>(360,430)</b>	<b>577,166</b>
<b>Total comprehensive income for the period</b>		<b>856,151</b>	<b>24,040,325</b>
<b>Net income attributable to:</b>			
Owners of the Company		1,055,985	23,317,659
Non-controlling interest		160,596	145,500
<b>Net profit for the period</b>		<b>1,216,581</b>	<b>23,463,159</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		766,041	23,894,825
Non-controlling interest		90,110	145,500
<b>Total comprehensive income for the period</b>		<b>856,151</b>	<b>24,040,325</b>
<b>Earnings per share (SR) attributable to shareholders of the company</b>			
Basic and diluted earnings per share	8	0.11	2.53

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on May 31, 2020.

  
Khaled Walced Abi Hana  
Chief Financial Officer

  
Yousri bin Abdul Hamid Al-Bishri  
Chief Executive Officer

  
Fahad Mohammed Al Dawood  
Chairman

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


**SAUDI PAPER MANUFACTURING COMPANY**


(A SAUDI JOINT STOCK COMPANY)


**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2020**

	Equity attributable to the shareholders of the Company			Total SR	Non- controlling interest SR	Total SR
	Share capital SR	Other reserves SR	Accumulated losses SR			
As at January 1, 2019 - <b>as previously stated</b>	245,000,000	(8,107,729)	(103,865,781)	133,026,490	5,425,690	138,452,180
Restatement of property plant and equipment	-	-	(33,052,515)	(33,052,515)	-	(33,052,515)
As at January 1, 2019 - <b>as restated</b>	245,000,000	(8,107,729)	(136,918,296)	99,973,975	5,425,690	105,399,665
Net profit for the period	-	-	23,317,659	23,317,659	145,500	23,463,159
Other comprehensive income for the period	-	577,166	-	577,166	-	577,166
Total comprehensive income for the period	-	577,166	23,317,659	23,894,825	145,500	24,040,325
As at March 31, 2019 (un-audited)	<u>245,000,000</u>	<u>(7,530,563)</u>	<u>(113,600,637)</u>	<u>123,868,800</u>	<u>5,571,190</u>	<u>129,439,990</u>
<b>As at January 1, 2020 - (audited)</b>	92,000,000	(7,475,688)	(11,801,606)	72,722,706	1,222,385	73,945,091
Net profit for the period	-	-	1,055,985	1,055,985	160,596	1,216,581
Other comprehensive (loss) income for the period	-	(289,944)	-	(289,944)	(70,486)	(360,430)
Total comprehensive (loss) income for the period	-	(289,944)	1,055,985	766,041	90,110	856,151
Dividend paid	-	-	-	-	(120,995)	(120,995)
<b>As at March 31, 2020 (un-audited)</b>	<u>92,000,000</u>	<u>(7,765,632)</u>	<u>(10,745,621)</u>	<u>73,488,747</u>	<u>1,191,500</u>	<u>74,680,247</u>

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on May 31, 2020.

  
Khalid Waleed Abo Hana  
Chief Financial Officer

  
Yousri bin Abdul Hamid Al-Bishri  
Chief Executive Officer

  
Fahad Mohammad Al Dawood  
Chairman

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

**SAUDI PAPER MANUFACTURING COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2020**


	<b>Three months periods ended</b>	
	<b>March 31, 2020</b> <b>(Un-audited)</b> <b>SR</b>	<b>March 31, 2019</b> <b>(Un-audited)</b> <b>SR</b>
<b>Cash flow from operating activities</b>		
Net profit for the period	<b>1,216,581</b>	23,463,159
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	<b>12,276,285</b>	12,440,249
Charge/ (reversal) in allowance for impairment of trade receivables	<b>1,852,161</b>	(36,116,952)
Finance charges	<b>9,068,465</b>	11,783,160
Provision against other receivables	<b>3,500,000</b>	-
Zakat expense	<b>2,497,067</b>	2,098,370
Amortization of intangible assets	<b>368,872</b>	368,872
Share in profit of an associate	<b>(839,818)</b>	(730,000)
Gain on sale of property, plant and equipment	<b>-</b>	(200,000)
Provision for employees' end of service benefits	<b>1,222,409</b>	1,073,924
	<b>31,162,022</b>	14,180,782
<i>Changes in operating assets and liabilities:</i>		
Trade receivables	<b>(6,126,447)</b>	12,693,996
Inventories	<b>12,689,340</b>	(3,976,745)
Advances, prepayments and other assets	<b>(10,194,494)</b>	19,030,952
Trade payables	<b>7,370,531</b>	(6,340,586)
Accrued expenses and other liabilities	<b>1,754,539</b>	2,941,888
Cash generated from operating activities	<b>36,655,491</b>	38,530,287
Finance cost paid	<b>(8,167,796)</b>	(11,675,732)
Zakat paid	<b>(1,050,316)</b>	-
Employees' end of service benefits paid	<b>(622,552)</b>	(466,921)
<b>Net cash generated from operating activities</b>	<b>26,814,827</b>	26,387,634
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment	<b>(2,349,484)</b>	(1,708,870)
Dividend received from an associate	<b>2,600,000</b>	-
Proceeds from disposal of property, plant and equipment	<b>-</b>	224,847
<b>Net cash flows generated from (used in) investing activities</b>	<b>250,516</b>	(1,484,023)
<b>Cash flow from financing activities</b>		
Lease payments	<b>(903,200)</b>	(903,200)
Change in short term loans, net	<b>(16,028,256)</b>	(7,683,008)
Change in medium and long term loans, net	<b>(2,305,698)</b>	(18,462,430)
Dividend paid to non controlling interest	<b>(120,995)</b>	-
<b>Net cash used in financing activities</b>	<b>(19,358,149)</b>	(27,048,638)
<b>Net change in cash and cash equivalents</b>	<b>7,707,194</b>	(2,145,027)
Cash and cash equivalents at the beginning of the period	<b>11,959,334</b>	22,844,638
Effect of exchange rate fluctuations	<b>(294,696)</b>	577,166
<b>Cash and cash equivalents at the end of the period</b>	<b>19,371,832</b>	21,276,777

**Cash flow supplemental information**

9

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on May 31, 2020.

  
**Khalid Waleed Abo Hana**  
**Chief Financial Officer**

  
**Yousri bin Abdul Hamid Al-Bishri**  
**Chief Executive Officer**

  
**Fahad Mohammad Al Dawood**  
**Chairman**

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



**SAUDI PAPER MANUFACTURING COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2020**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

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

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

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

The shareholders in their extraordinary general meeting held on on November 4, 2019 approved recommendation of the Board of Directors of the Company to reduce the share capital of the Company from SR 245,000,000 to SR 92,000,000 for the purpose of restructuring of the share capital of the Company to absorb the accumulated losses of the Company and support its future growth. As a result, total number of shares of the Company was reduced from 24,500,000 to 9,200,000 by way of cancellation of shares and the capital was accordingly reduced to SR 92 million. Following the capital reduction, the Board recommended to increase the share capital of the Company through right issue by SR 150 million in order to strengthen the financial position of the Group and to improve liquidity and working capital needs.

These condensed consolidated interim financial statements have been prepared assuming that the group will continue as a going concern. As of March 31, 2020, the current liabilities of the Group exceeded its current assets by SR 169.9 million (December 31, 2019: SR 198.3) mainly on account of short term loans and current portion of medium and long term loans amounting to SR 123.9 million and SR 188.6 million, respectively (December 31, 2019: SR 140 million and SR 206.6 million respectively). Additionally, the group was in breach of its loans financial covenants and in default on repayment due for its term loans by SR 27.7 million as of March 31, 2020 (December 31, 2019 : SR 19.9 million). The Group is currently in the process of negotiating for the restructuring of the loans in order to resolve the breach of the loans covenants. Management believes that the Group will be successful in restructuring of loans and resolving the breach in the near future. Furthermore, management of the Company intends to revolve its short term loans. Management believes that the Group would be successful in revolving its short term loans as per its past practice. Accordingly, these consolidated financial statements are prepared on going concern basis and the loans are continued to be classified as per their original terms of repayment.

**1.1 Structure of the group**

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

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

During the year ended December 31, 2019, based on a “promise to sell agreement” the Group sold one of its subsidiary, Morocco Paper Manufacturing Company (MPMC). The balance receivable against the sale is presented under advances, prepayments and other assets. During the three months period ended March 31, 2020, the Company has provided SR 3.5 million against this receivable balance based on the recommendation of Board of Director of the Company. The other subsidiary i.e. Al Madar Paper Trading was not classified as “Held For Sale” as of December 31, 2019 due to changes in plan to sell the subsidiary.

## **2. BASIS OF PREPARATION**

### **2.1 Statement of compliance**

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

### **2.2 Preparation of the condensed consolidated interim financial statements**

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

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

### **2.3 Functional and presentation currency**

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

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **3.1 Basis of consolidation**

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

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

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

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

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

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

# SAUDI PAPER MANUFACTURING COMPANY

(A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued) FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2020

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.1 Basis of consolidation (Continued)

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

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

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

#### 3.2 Changes in significant accounting policies

##### *New standards, Amendments to standards and Interpretations*

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

### 4 PROPERTY, PLANT AND EQUIPMENT

- 4.1 The Group acquired fixed assets in three months period ended March 31, 2020 amounting to SR 2.3 million (period ended March 31, 2019: SR 1.7 million).

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

	<b>March 31, 2020 (Un-audited) SR</b>	December 31, 2019 (audited) SR
<b>Right of use assets</b>		
Lands	<u>7,718,833</u>	<u>7,905,098</u>
	<b>7,718,833</b>	<b>7,905,098</b>

#### 4.2 Impairment on working plant and machinery

The management of the Company performed an impairment assessment of its property, plant and equipment as at December 31, 2019 based on which no impairment loss was recognised during the year ended December 31, 2019 (December 31, 2018: SR 6.5 million). The assessment includes assumptions related to future sales volume, prices, annual growth rates, terminal growth rates, discount rates, net realizable value and other related factors. The outcome of these assumptions is highly dependent on the success of future operations as estimated by management, market conditions and achieving its plans in future. Management considers these assumptions to be realistic and achievable in view of its operational restructuring plan and is confident of its ability to meet these future plans. Management believes that the carrying value of its property, plant and equipment will ultimately be recovered from the future operations.

#### 4.3 Impairment of unutilized plant and machinery

The management engaged a third party consultant for the impairment assessment of certain unutilized assets of property, plant and equipment as of December 31, 2019 amounting to SR 43.7 million (December 31, 2018: SR 84 million). Based on the results of this assessment, management concluded that impairment amounting SR 3.2 million was required for these unutilized assets as of December 31, 2019 (December 31, 2018: SR 36.9 million). Management is currently assessing the alternative utilization plan for these assets. Management believes that these assets have the ability to provide future economic benefits to the Group and accordingly carrying amount of such assets will not exceed their recoverable amounts as of March 31, 2020.

**SAUDI PAPER MANUFACTURING COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**  
**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2020**

**5. TRADE RECEIVABLES**

		<b>March 31, 2020</b> <b>(Un-audited)</b>	December 31, 2019 (Audited)
	<b>Note</b>	<b>SR</b>	<b>SR</b>
Trade receivables		<u>247,779,028</u>	241,652,582
Allowance for impairment of trade receivables	5.1	<u>(105,532,277)</u>	(103,680,117)
		<u><b>142,246,751</b></u>	<u>137,972,465</u>

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

	<b>March 31, 2020</b> <b>(Un-audited)</b>	December 31, 2019 (Audited)
	<b>SR</b>	<b>SR</b>
Opening balance	<u>103,680,117</u>	138,731,315
Charge for the period / year	<u>1,852,160</u>	5,750,000
Write offs	-	(3,658,584)
Reversals during the period / year	-	(37,142,614)
	<u><b>105,532,277</b></u>	<u>103,680,117</u>

**6. LOANS**

**a) Medium and long-term loans**

		<b>March 31, 2020</b> <b>(Un-audited)</b>	December 31, 2019 (Audited)
	<b>Note</b>	<b>SR</b>	<b>SR</b>
Saudi Industrial Development Fund ("SIDF") loans	6.1	<u>35,836,351</u>	39,272,452
Commercial bank loans	6.2	<u>527,304,066</u>	526,173,663
		<u><b>563,140,417</b></u>	565,446,115
Current maturity of long term loans		<u>(188,658,262)</u>	(206,621,768)
		<u><b>374,482,155</b></u>	<u>358,824,347</u>

The Group has not complied with the covenant requirements of maintaining certain financial ratios of some of its loan agreements. However, management believes that the group will be successful in restructuring current portion of its medium and long term loans.

These bank loans are secured against promissory notes amounting to SR 729 million (2019: SR 729.3 million).

During the year, certain loans amounting to SR 204 million (2019: SR 75.3 million) from different commercial banks were restructured.

**6.1 SIDF loans**

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

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

**6.2 Commercial bank loans**

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

**b) Short term loans**

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

**SAUDI PAPER MANUFACTURING COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**  
**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2020**

**7. OPERATING SEGMENTS**

**a. Basis for segmentation**

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

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

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

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

There are varying levels of integration between the both the segments. This integration includes transfers of recycled raw materials and shared distribution services, respectively. Inter-segment pricing is determined on an arm's length basis.

**b. Information about reportable segments**

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

**Three months period ended March 31, 2020**  
**(Un-audited)**

	Reportable segments		Total SR
	Manufacturing SR	Trading and others SR	
Segment revenue	176,391,212	8,326,952	184,718,164
Inter-segment revenue	(34,839,252)	(4,004,809)	(38,844,061)
External revenue	141,551,960	4,322,143	145,874,103
Net profit before zakat	7,386,266	(3,672,618)	3,713,648
Finance cost	8,732,505	335,960	9,068,465
Depreciation and amortization	12,336,235	308,922	12,645,157
Segment assets	880,812,798	48,504,826	929,317,624
Segment liabilities	812,758,913	41,878,464	854,637,377

**Three months period ended March 31, 2019**  
**(Un-audited)**

	Reportable segments		Total SR
	Manufacturing SR	Trading, transport and others SR	
Segment revenue	190,269,639	12,646,048	202,915,687
Inter-segment revenue	(41,269,908)	(6,542,542)	(47,812,450)
External revenue	148,999,731	6,103,506	155,103,237
Net profit before zakat	22,798,351	2,763,178	25,561,529
Finance cost	11,390,332	392,828	11,783,160
Depreciation and amortization	12,294,442	514,679	12,809,121
Segment assets- restated	979,734,928	51,988,179	1,031,723,107
Segment liabilities	828,262,234	74,020,883	902,283,117

**SAUDI PAPER MANUFACTURING COMPANY**

(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)  
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2020****7. OPERATING SEGMENTS (Continued)****c. Geographic information**

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

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

	<b>March 31, 2020</b> <b>(Un-audited)</b> <b>SR</b>	March 31, 2019 (Un-audited) SR
<b>- Revenue</b>		
Saudi Arabia	<b>132,043,827</b>	139,740,227
GCC countries	<b>10,049,834</b>	10,902,938
Other countries	<b>3,780,442</b>	4,460,072
<b>Consolidated revenue</b>	<b>145,874,103</b>	155,103,237
<b>- Non-current assets</b>		
Saudi Arabia	<b>599,656,378</b>	682,881,068
GCC countries	<b>35,927,387</b>	30,267,161
Other countries	<b>10,737,146</b>	8,287,996
<b>Consolidated non-current assets</b>	<b>646,320,911</b>	721,436,225

**8. EARNINGS PER SHARE**

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

Earnings per share are represented as follows:

	<b>March 31, 2020</b> <b>(Un-audited)</b> <b>SR</b>	March 31, 2019 (Un-audited) SR
Net profit for the period (SAR)	<b>1,055,985</b>	23,317,659
Weighted average number of outstanding shares	<b>9,200,000</b>	9,200,000
Basic/ diluted earnings per share (SR) for profit for the period	<b>0.11</b>	2.53

**9. SUPPLEMENTAL CASHFLOW INFORMATION**

	<b>March 31, 2020</b> <b>(Un-audited)</b> <b>SR</b>	March 31, 2019 (Un-audited) SR
Right of use assets	-	8,464,183

**10. CONTINGENCIES AND COMMITMENTS**

As of March 31, 2020, the Group was contingently liable for letter of credits and bank guarantees issued in the normal course of the business amounting to SR 19 million (December 31, 2019: SR 14.9 million) and SR 0.53 million (December 31, 2019: SR 0.53 million) respectively.

**11. SUBSEQUENT EVENTS**

- 1- Coronavirus disease (COVID-19) has spread across nationwide causing disruption to businesses and economies. The Company considers this to be a non-adjusting post balance sheet date event and it is not possible to accurately estimate the potential financial impact on the Company as of now. The Company is currently assessing the financial impacts and the results will be reflected in June 30, 2020 interim financial statements, if any.
- 2- On April 28, 2020, the Board of the Directors of the Company resolved to adjust their previous recommendation on increase in share capital, whereby it was agreed to increase the share capital by SR 100 million instead of SR 150 million by way of right issue.

**SAUDI PAPER MANUFACTURING COMPANY**

(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)  
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2020**

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**12. APPROVAL OF FINANCIAL STATEMENTS**

These condensed consolidated interim financial statements were approved by the Board of Directors of the Company and authorized for issue on May 31, 2020 corresponding to 8 Shawal 1441H.