

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS (Unaudited)**
**FOR THE THREE AND SIX MONTHS PERIODS ENDED
JUNE 30, 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 AND SIX MONTHS PERIODS ENDED JUNE 30, 2020

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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, A Saudi Joint Stock Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of June 30, 2020, the related condensed consolidated interim statement of profit or loss and other comprehensive income for the three and six months periods then ended, the condensed consolidated interim statements of changes in equity and cash flows for the six 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 June 30, 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 June 30, 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. 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.

**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.

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 187.8 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 139.8 million and SR 196.3 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 long term loans by SR 51.8 million as of June 30, 2020 (December 31, 2019: SR 19.9 million). During the period ended June 30, 2020, as part of its overall loan restructuring plan, the Group entered into an agreement with a local bank for a term loan of SR 199.8 million. Management of the Group believes that the aforementioned loan will help the Group in settlement of its old loan balance and to meet the financing needs of the Group in future. Furthermore, the Group is currently in the process of negotiating with various banks for the restructuring of the remaining 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. Additionally, 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 June 30, 2020.

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Ibrahim Ahmed Al Bassam
 Certified Public Accountant
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August 16, 2020
 26 Dhul Hijjah 1441H

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2020

	Note	June 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
ASSETS			
Non-current assets			
Property, plant and equipment	4	600,169,959	620,330,466
Intangible assets		16,364,395	16,859,361
Investment in an associate		20,302,491	21,252,673
Total non-current assets		636,836,845	658,442,500
Current assets			
Inventories		84,586,979	89,411,044
Trade receivables	5	136,206,399	137,972,465
Advances, prepayments and other assets		45,820,701	37,961,932
Cash and cash equivalents		22,806,133	11,959,334
Total current assets		289,420,212	277,304,775
TOTAL ASSETS		926,257,057	935,747,275
EQUITY AND LIABILITIES			
Equity			
Share capital	1	92,000,000	92,000,000
Other reserves		(8,015,430)	(7,475,688)
Accumulated losses		(6,917,417)	(11,801,606)
Equity attributable to the shareholders of the Company		77,067,153	72,722,706
Non-controlling interest		1,249,679	1,222,385
Total equity		78,316,832	73,945,091
LIABILITIES			
Non-current liabilities			
Medium and long term loans	6	343,034,533	358,824,347
Employees' end of service benefits		20,876,432	19,828,157
Lease liabilities – non current portion		6,845,424	7,569,483
Total non-current liabilities		370,756,389	386,221,987
Current liabilities			
Short-term loans	6	139,815,699	140,022,579
Medium and long term loans – current portion	6	196,348,750	206,621,768
Trade payables		71,919,348	69,607,261
Accrued expenses and other liabilities		48,057,855	42,594,780
Provision for zakat		20,503,861	16,208,696
Lease liabilities – current portion		538,323	525,113
Total current liabilities		477,183,836	475,580,197
Total liabilities		847,940,225	861,802,184
TOTAL EQUITY AND LIABILITIES		926,257,057	935,747,275

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 August 16, 2020.


Khalid Walid Abu Huna
Chief Financial Officer


Youssef Abdel Hamid Abdel
Aziz El Bishry
Chief Executive Officer


Fahad Mohammad Al Dawood
Chairman


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

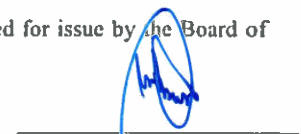
SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS PERIODS ENDED JUNE 30, 2020

	Note	From April 1 to June 30		From January 1 to June 30	
		2020 (Un-audited) SR	2019 (Un-audited) SR	2020 (Un-audited) SR	2019 (Un-audited) SR
Revenue	8	142,673,236	121,877,022	288,547,339	276,980,259
Cost of revenue		(102,990,166)	(105,100,533)	(207,100,722)	(235,173,423)
Gross profit		39,683,070	16,776,489	81,446,617	41,806,836
General and administrative expenses		(10,582,469)	(11,624,881)	(20,695,667)	(23,961,739)
Selling and distribution expenses		(12,856,227)	(13,344,726)	(27,694,975)	(27,241,263)
Reversal / (allowance) for impairment of trade receivables	5	1,329,969	4,751,016	(522,191)	40,867,968
Operating profit (loss)		17,574,343	(3,442,102)	32,533,784	31,471,802
Finance charges	6,8	(8,425,370)	(10,313,566)	(17,493,835)	(22,096,726)
Share in profit of an associate		810,000	720,000	1,649,818	1,450,000
Other (expenses) / income, net		(3,172,395)	(306,285)	(6,189,541)	1,394,500
Net profit (loss) before zakat		6,786,578	(13,341,953)	10,500,226	12,219,576
Zakat		(2,868,958)	(2,098,371)	(5,366,025)	(4,196,741)
Net profit (loss) for the period		3,917,620	(15,440,324)	5,134,201	8,022,835
Other comprehensive income (loss)					
<i>Item that may be reclassified to profit or loss</i>					
Exchange differences on translation of foreign operations and others		(236,015)	443,308	(596,445)	1,020,474
Other comprehensive (loss) income for the period		(236,015)	443,308	(596,445)	1,020,474
Total comprehensive income (loss) for the period		3,681,605	(14,997,016)	4,537,756	9,043,309
Net profit (loss) attributable to:					
Shareholders of the Company		3,828,204	(15,527,416)	4,884,189	7,790,243
Non-controlling interest		89,416	87,092	250,012	232,592
Net profit (loss) for the period		3,917,620	(15,440,324)	5,134,201	8,022,835
Total comprehensive income (loss) attributable to:					
Shareholders of the Company		3,578,406	(15,084,108)	4,344,447	8,810,717
Non-controlling interest		103,199	87,092	193,309	232,592
Total comprehensive income (loss) for the period		3,681,605	(14,997,016)	4,537,756	9,043,309
Earnings / (loss) per share (SR) attributable to shareholders of the company					
Basic and diluted earnings (loss) per share	9	0.42	(1.69)	0.53	0.85

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 August 16, 2020.


Khalid Walid Abu Hana
Chief Financial Officer


Yousseri Abdel Hamid Abdel
Aziz El Bishry
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 CHANGES IN EQUITY
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020

	Equity attributable to the shareholders of the Company					
	Share capital SR	Other reserves SR	Accumulated losses SR	Total SR	Non-controlling interest SR	Total SR
As at January 1, 2019 – (audited) as previously stated	245,000,000	(8,107,729)	(103,865,781)	133,026,490	5,425,690	138,452,180
Restatement of property plant and equipment As at January 1, 2019 - as restated	245,000,000	(8,107,729)	(33,052,515) (136,918,296)	(33,052,515) 99,973,975	- 5,425,690	(33,052,515) 105,399,665
Net profit for the period	-	-	7,790,243	7,790,243	232,592	8,022,835
Other comprehensive income for the period	-	1,020,474	-	1,020,474	-	1,020,474
Total comprehensive income for the period	-	1,020,474	7,790,243	8,810,717	232,592	9,043,309
As at June 30, 2019 (un-audited)	245,000,000	(7,087,255)	(129,128,053)	108,784,692	5,658,282	114,442,974
As at January 1, 2020 - (audited)	92,000,000	(7,475,688)	(11,801,606)	72,722,706	1,222,385	73,945,091
Net profit for the period	-	-	4,884,189	4,884,189	250,012	5,134,201
Other comprehensive loss for the period	-	(539,742)	-	(539,742)	(56,703)	(596,445)
Total comprehensive (loss) income for the period	-	(539,742)	4,884,189	4,344,447	193,309	4,537,756
Dividend paid	-	-	-	-	(166,015)	(166,015)
As at June 30, 2020 (un-audited)	92,000,000	(8,015,430)	(6,917,417)	77,067,153	1,249,679	78,316,832

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 August 16, 2020.


Fahad Mohammed Al Dawood
Chairman


Youssef Abdel Hamid Abdel Aziz El Bishry
Chief Executive Officer


Yousseri Abdel Hamid Abdel Aziz El Bishry
Chief Executive Officer

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 SIX MONTHS PERIOD ENDED JUNE 30, 2020

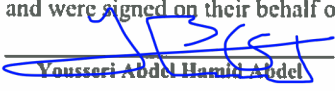
	Six months periods ended	
	June 30, 2020 (Un-audited) SR	June 30, 2019 (Un-audited) SR
Cash flow from operating activities		
Net profit for the period	5,134,201	8,022,835
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	24,577,135	24,982,746
Charge/ (reversal) in allowance for impairment of trade receivables	522,191	(40,867,968)
Finance charges	17,493,835	22,096,726
Provision against other receivables	7,000,000	-
Zakat expense	5,366,025	4,196,741
Amortization of intangible assets	737,745	737,745
Share in profit of an associate	(1,649,818)	(1,450,000)
Gain on sale of property, plant and equipment	-	(19,656)
Provision for employees' end of service benefits	2,095,095	1,980,936
	61,276,409	19,680,105
<i>Changes in operating assets and liabilities:</i>		
Trade receivables	1,243,875	42,141,772
Inventories	4,824,065	(23,369,895)
Advances, prepayments and other assets	(14,858,769)	18,973,397
Trade payables	2,312,087	(13,239,165)
Accrued expenses and other liabilities	5,463,075	(5,154,664)
Cash generated from operating activities	60,260,742	39,031,550
Finance cost paid	(15,199,669)	(21,891,827)
Zakat paid	(1,070,860)	-
Employees' end of service benefits paid	(1,046,820)	(1,129,254)
Net cash generated from operating activities	42,943,393	16,010,469
Cash flow from investing activities		
Purchase of property, plant and equipment	(4,580,680)	(3,713,196)
Dividend received from an associate	2,600,000	1,560,000
Purchase of intangible assets	(242,779)	-
Proceeds from disposal of property, plant and equipment	-	20,453
Net cash flows used in investing activities	(2,223,459)	(2,132,743)
Cash flow from financing activities		
Lease payments	(903,200)	(903,200)
Change in short term loans, net	(1,180,296)	12,107,281
Change in medium and long term loans, net	(27,191,231)	(28,301,685)
Dividend paid to non controlling interest	(166,015)	-
Net cash used in financing activities	(29,440,742)	(17,097,604)
Net change in cash and cash equivalents	11,279,192	(3,219,878)
Cash and cash equivalents at the beginning of the period	11,959,334	22,844,638
Effect of exchange rate fluctuations	(432,393)	1,017,518
Cash and cash equivalents at the end of the period	22,806,133	20,642,278

Cash flow supplemental information

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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 August 16, 2020.


Khalid Walid Abu Hana
Chief Financial Officer


Youssori Abdel Hamid Abdel
Aziz El Bishry
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 AND SIX MONTHS PERIODS ENDED JUNE 30, 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. 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.

These condensed consolidated interim financial statements have been prepared assuming that the group will continue as a going concern. As of June 30, 2020, the current liabilities of the Group exceeded its current assets by SR 187.8 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 139.8 million and SR 196.3 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 51.8 million as of June 30, 2020 (December 31, 2019: SR 19.9 million). During the period ended June 30, 2020, as part of its overall loan restructuring plan, the Group entered into an agreement with a local bank for a term loan of SR 199.8 million. Management of the Group believes that the aforementioned loan will help the Group in settlement of its old loan balance and to meet the financing needs of the Company in future. Furthermore, the Group is currently in the process of negotiating with various banks for the restructuring of the remaining 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. Additionally, 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.

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:

Subsidiary	Country of incorporation	Effective ownership	
		June 2020	December 2019
Saudi Recycling Company	Saudi Arabia	100%	100%
Saudi Paper Converting Company	Saudi Arabia	100%	100%
Saudi Investment and Industrial Development Company	Saudi Arabia	100%	100%
Al Madar Paper Trading (Al Madar)	UAE	100%	100%
Al Madar Paper Trading	Morocco	100%	100%
Al Madar Paper Trading	Jordan	100%	100%
Saudi Paper Converting Company Jordan	Jordan	100%	100%
Al Madar Paper	Algeria	100%	100%
Al - Juthoor Paper Tissue Manufacturing Plant	Kuwait	85%	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 six months period ended June 30, 2020, the Company has provided SR 7 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 and six months' periods ended June 30, 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 AND SIX MONTHS PERIODS ENDED JUNE 30, 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 six months period ended June 30, 2020 amounting to SR 4.58 million (period ended June 30, 2019: SR 3.71 million).

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

	June 30, 2020 (Un-audited) SR	December 31, 2019 (audited) SR
Right of use assets, net		
Lands	<u>7,532,374</u>	<u>7,905,098</u>
	<u>7,532,374</u>	<u>7,905,098</u>

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 June 30, 2020.

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE AND SIX MONTHS PERIODS ENDED JUNE 30, 2020****5. TRADE RECEIVABLES**

		June 30, 2020 (Un-audited)	December 31, 2019 (Audited)
	Note	SR	SR
Trade receivables		240,408,707	241,652,582
Allowance for impairment of trade receivables	5.1	(104,202,308)	(103,680,117)
		136,206,399	137,972,465

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

		June 30, 2020 (Un-audited)	December 31, 2019 (Audited)
		SR	SR
Opening balance		103,680,117	138,731,315
Charge for the period / year		522,191	-
Write offs		-	(3,658,584)
Reversals during the period / year		-	(31,392,614)
		104,202,308	103,680,117

6. LOANS**a) Medium and long-term loans**

		June 30, 2020 (Un-audited)	December 31, 2019 (Audited)
	Note	SR	SR
Saudi Industrial Development Fund ("SIDF") loans	6.1	35,696,951	39,272,452
Commercial bank loans	6.2	503,686,332	526,173,663
		539,383,283	565,446,115
Current maturity of long term loans		(196,348,750)	(206,621,768)
		343,034,533	358,824,347

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. (Note 1)

These bank loans are secured against promissory notes amounting to SR 927.6 million (2019: SR 729.3 million).

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

During the period ended June 30, 2020, as part of its loan restructuring plan, the Company entered into an agreement with a local bank for a term loan of SR 199.8 million. (Note1). As per the terms and conditions of the agreement, the liability on the loan will arise from the draw down date which was done subsequent to period ended June 30, 2020.

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. (Note 1)

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 June 30, 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.

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE AND SIX MONTHS PERIODS ENDED JUNE 30, 2020**

7. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The related parties consist of subsidiaries, affiliates and Board of Directors and key management personnel of the Group. In the ordinary course of business, the Group transacts with its related parties. Such transactions relate to services rendered and received and expenses incurred on behalf of related parties. The transactions are dealt with on mutually agreed terms and the terms and conditions on these transactions are approved by the Group's management.

Key management personnel compensation

	June 30, 2020 (Un-audited) SR	June 30, 2019 (Audited) SR
Short-term employees benefits	2,093,420	3,581,950
Employees' end of service benefits	111,544	144,988
	2,204,964	3,726,938

8. 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.

Six months period ended June 30, 2020 (Un-audited)	Reportable segments		Total SR
	Manufacturing SR	Trading and others SR	
Segment revenue	340,452,934	18,103,269	358,556,203
Inter-segment revenue	(63,542,304)	(6,466,560)	(70,008,864)
External revenue	276,910,630	11,636,709	288,547,339
Net profit (loss) before zakat	17,805,206	(7,304,980)	10,500,226
Finance cost	16,823,531	670,304	17,493,835
Depreciation and amortization	24,701,221	613,659	25,314,880
Segment assets	880,688,675	45,568,382	926,257,057
Segment liabilities	803,966,042	43,974,183	847,940,225

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8. OPERATING SEGMENTS (Continued)

b. Information about reportable segments (Continued)

Six months period ended June 30, 2019 (Un-audited)	Reportable segments		Total SR
	Manufacturing SR	Trading, transport and others SR	
Segment revenue	330,825,197	23,404,015	354,229,212
Inter-segment revenue	(66,019,186)	(11,229,767)	(77,248,953)
External revenue	264,806,011	12,174,248	276,980,259
Net profit before zakat	7,597,009	4,622,567	12,219,576
Finance cost	21,384,843	711,883	22,096,726
Depreciation and amortization	24,699,547	1,020,944	25,720,491
Segment assets- restated	964,902,267	49,220,248	1,014,122,515
Segment liabilities	829,103,053	70,576,488	899,679,541

Three months period ended June 30, 2020 (Un-audited)	Reportable segments		Total SR
	Manufacturing SR	Trading and others SR	
Segment revenue	164,061,722	9,776,317	173,838,039
Inter-segment revenue	(28,703,052)	(2,461,751)	(31,164,803)
External revenue	135,358,670	7,314,566	142,673,236
Net profit (loss) before zakat	10,418,940	(3,632,362)	6,786,578
Finance cost	8,091,026	334,344	8,425,370
Depreciation and amortization	12,364,986	304,737	12,669,723

Three months period ended June 30, 2019 (Un-audited)	Reportable segments		Total SR
	Manufacturing SR	Trading, transport and others SR	
Segment revenue	140,555,558	10,757,967	151,313,525
Inter-segment revenue	(24,749,278)	(4,687,225)	(29,436,503)
External revenue	115,806,280	6,070,742	121,877,022
Net (loss) profit before zakat	(15,201,342)	1,859,389	(13,341,953)
Finance cost	9,994,511	319,055	10,313,566
Depreciation and amortization	12,405,105	506,265	12,911,370

Year ended December 31, 2019 (Audited)	Reportable segments		Total SR
	Manufacturing SR	Trading and others SR	
Segment assets	883,487,379	52,259,896	935,747,275
Segment liabilities	820,556,846	41,245,338	861,802,184

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8. 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.

For the six months period ended

	June 30, 2020 (Un-audited) SR	June 30, 2019 (Un-audited) SR
- Revenue		
Saudi Arabia	263,667,020	247,216,635
GCC countries	17,719,406	20,935,636
Other countries	7,160,913	8,827,988
Consolidated revenue	288,547,339	276,980,259

For the three months period ended

	June 30, 2020 (Un-audited) SR	June 30, 2019 (Un-audited) SR
- Revenue		
Saudi Arabia	131,623,193	107,476,408
GCC countries	7,669,572	10,032,698
Other countries	3,380,471	4,367,916
Consolidated revenue	142,673,236	121,877,022

As of period / year ended

	June 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR	June 30, 2019 (Un-audited) SR
- Non-current assets			(Restated)
Saudi Arabia	590,122,762	612,401,517	637,902,026
GCC countries	36,175,288	35,140,102	30,548,258
Other countries	10,538,795	10,900,881	8,213,388
Consolidated non-current assets	636,836,845	658,442,500	676,663,672

9. EARNINGS / (LOSS) PER SHARE

Basic earnings / (loss) per share is calculated by dividing the net profit / (loss) attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Earnings (loss) per share are represented as follows:

	From April 1 to June 30		From January 1 to June 30	
	2020	2019	2020	2019
	(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)
Net profit (loss) for the period (SR)	3,828,204	(15,527,416)	4,884,189	7,790,243
Weighted average number of outstanding shares	9,200,000	9,200,000	9,200,000	9,200,000
Basic/ Dilutive earnings (loss) per share (SR)	0.42	(1.69)	0.53	0.85

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10. SUPPLEMENTAL CASHFLOW INFORMATION

	June 30, 2020	June 30, 2019
	(Un-audited)	(Un-audited)
	SR	SR
	<hr/>	<hr/>
Right of use assets, net	-	8,277,821

11. CONTINGENCIES AND COMMITMENTS

As of June 30, 2020, the Group was contingently liable for letter of credits and bank guarantees issued in the normal course of the business amounting to SR 23 million (December 31, 2019: SR 14.9 million) and SR 0.53 million (December 31, 2019: SR 0.53 million) respectively.

12. SUBSEQUENT EVENTS

- 1- The Company has signed an agreement with a local bank to reschedule its existing financing facility with the Bank amounting to SR 75.53 million. The Company has rescheduled the facility to meet its cash flow requirements.
- 2- The Company has received full amount of loan of SR 199.8 million as per agreement signed with a local bank before the period end. (Note 6).

13. SIGNIFICANT EVENT

In March 2020, the Kingdom of Saudi Arabia announced a global pandemic due to the novel coronavirus (COVID-19). The impact of outbreak and long hours of curfew has caused a significant change in business activities and increase in economy uncertainty. The Group proactively took a range of operational preventive measures in response to the situation by modifying certain operations to comply with health and safety guidelines to protect employees, customers and suppliers, secure smooth supply chain process to avoid any business interruption benefiting from all supports announced by the Government for the private sectors.

Management believes that the Covid-19 pandemic had limited impact on the Group reported results for the period ended June 2020 due to the steps taken by the company and the diversification of its portfolio. The company will continue to assess this situation moving forward.

14. COMPARATIVE FIGURES

Certain figures of the comparative period have been reclassified in order to conform with presentation in current period.

15. 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 August 16, 2020 corresponding to 26 Dhul Hijjah 1441H.