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, 2019
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, 2019

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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 (the "Company") and its subsidiaries (collectively referred to as the "Group") as of June 30, 2019, 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 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" 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 paragraph, 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 has performed an assessment for the impairment of the Group's trade receivables as of June 30, 2019. Based on the results of this assessment, a reversal in allowance for impairment of trade receivables, amounting to SR 43.8 million, is recognised during the six months period ended June 30, 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 has not reflected the resulting impact, if any, in the balance sheet and income statement for the year ended December 31, 2018. Accordingly, we are unable to determine whether any adjustment to carrying value of trade receivables, their related allowance for impairment and accumulated losses of the Group as of December 31, 2018 and results for the six months period ended June 30, 2019, is necessary.

2) During our audit of the consolidated financial statements for the year ended December 31, 2018, a matter came to our attention from those charged with governance with respect to appropriateness of accounting treatment followed by the Company for a sale and repurchase of lands transactions made during the years 2012 to 2016. Management has appointed an independent party to perform a detail review of all of these transactions and its respective accounting entries. During the three months period ended June 30, 2019, a draft report has been issued by the independent consultant which is currently under review by the Board of Directors and Audit Committee of the Company to assess the impact, if any, on the carrying value of lands included in property, plant and equipment as of June 30, 2019 and December 31, 2018. Accordingly, at the date of our review report, we are not able to conclude on the carrying value of lands included in property, plant and equipment as of June 30, 2019 and December 31, 2018, pending the completion of review by the Board and the Audit Committee.

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 for the three and six months periods ended June 30, 2019, are not prepared, in all material respects, in accordance with International Accounting Standard No 34, "Interim Financial Reporting" as endorsed in the Kingdom of Saudi Arabia.

Al Riyadh
Tel: +966 11 206 5333
Fax: +966 11 206 5444
P.O. Box 69658 Al Riyadh 11557

Jeddah
Tel: +966 12 652 5333
Fax: +966 12 652 2894
P.O. Box 15651 Jeddah 21454

Al Khobar
Tel: +966 13 893 3378
Fax: +966 13 893 3349
P.O. Box 4636 Al Khobar 31952

Buraydah
Tel: +966 11 206 5333
Fax: +966 11 206 5444
P.O. Box 69658 Al Riyadh 11557

Madinah
Tel: +966 12 652 5333
Fax: +966 12 652 2894
P.O. Box 15651 Jeddah 21454

Info.sa@pkf.com

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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.

Material Uncertainty 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 169.7 million (December 31, 2018: SR 147.5 million) mainly on account of short term loans and current portion of medium and long term loans amounting to SR 142.9 million and SR 206.3 million, respectively (December 31, 2018: SR 130.8 million and SR 181.8 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 22.67 million as of June 30, 2019. 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 Matters

1. We draw attention to Note 4 of the accompanying condensed consolidated interim financial statements which states that management has performed an impairment assessment of its property, plant and equipment as at December 31, 2018. The assessment includes assumptions related to future sales volume, prices, annual growth rates, terminal growth rates, discount rates and other related factors. The outcome of these assumptions is highly dependent on the success of future operations as estimated by management and achieving its plans in future. Based on the result of impairment exercise, management has recognized an impairment loss in the carrying value of property, plant and equipment as at December 31, 2018, amounting to SR 6.5 million. Management is confident of its ability to meet its future business plan and believes that the carrying value of property, plant and equipment as of June 30, 2019, after the recognized impairment, will be ultimately recovered from the future operations.

2. We draw attention to Note 4 of these condensed consolidated interim financial statements which states that management has engaged a third party consultant for the impairment assessment of certain unutilized assets of property, plant and equipment amounting to SR 75 million which were not fully utilized during the year ended December 31, 2018. Based on the results of this assessment, an impairment loss of SR 36.9 million has been recorded for the year ended December 31, 2018. 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, after the recongnized impairment, does not exceed their recoverable amount as of June 30, 2019.

Al Bassam & Co.
Allied Accountants

المحاسبون المتحالفون
محاسبون قانونيون
رقم الترخيص ٥٢٠
C.R 1010385804
License 520
Allied Accountants
Certified Public Accountants

Ibrahim Ahmed Al Bassam
Certified Public Accountant
License No. 337
Al Khobar

July 29, 2019
26 Dhul Qadah 1440H

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SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2019

	Note	June 30, 2019 (Un-audited) SR	December 31,2018 (Audited) SR
ASSETS			
Non-current assets			
Property, plant and equipment	4	671,419,849	684,036,695
Intangible assets		17,597,104	18,334,849
Investment in an associate		19,632,172	19,742,172
Financial assets at fair value through other comprehensive income		1,067,062	1,067,062
Total non-current assets		709,716,187	723,180,778
Current assets			
Inventories		98,362,167	74,992,272
Trade receivables	5	161,922,218	163,196,022
Advances, prepayments and other assets		37,572,048	56,601,725
Cash and cash equivalents		20,642,278	22,844,638
Assets classified as held for sale	1	18,960,132	18,960,132
Total current assets		337,458,843	336,594,789
TOTAL ASSETS		1,047,175,030	1,059,775,567
EQUITY AND LIABILITIES			
Equity			
Share capital	1	245,000,000	245,000,000
Other reserves		(7,087,255)	(8,107,729)
Accumulated losses		(96,075,538)	(103,865,781)
Equity attributable to the shareholders of the Company		141,837,207	133,026,490
Non-controlling interest		5,658,282	5,425,690
Total equity		147,495,489	138,452,180
LIABILITIES			
Non-current liabilities			
Medium and long term loans	6	368,864,623	421,699,372
Employees' end of service benefits		16,393,789	15,542,107
Lease liabilities – non current portion	7	7,292,589	-
Total non-current liabilities		392,551,001	437,241,479
Current liabilities			
Short-term loans	6	142,908,658	130,801,377
Medium and long term loans – current portion	6	206,333,814	181,800,750
Trade payables		73,237,631	86,476,796
Accrued expenses and other liabilities		65,638,406	70,793,070
Provision for zakat		12,011,954	7,815,213
Lease liabilities – current portion	7	603,375	-
Liabilities directly associated with assets classified as held for sale	1	6,394,702	6,394,702
Total current liabilities		507,128,540	484,081,908
Total liabilities		899,679,541	921,323,387
TOTAL EQUITY AND LIABILITIES		1,047,175,030	1,059,775,567

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 July 29, 2019.

Watheq Hassan Mohammed Shahatha **Chief Financial Officer**	**Hassan Mraizen Asiree** **Chief Executive Officer**	**Abdul Rahman Saleh Al Ubaid** **Chairman**

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 PERIOD ENDED JUNE 30, 2019

	Note	From April 1 to June 30 2019 (Un-audited) SR	From April 1 to June 30 2018 (Un-audited) SR	From January 1 to June 30 2019 (Un-audited) SR	From January 1 to June 30 2018 (Un-audited) SR
Revenue	9	121,877,022	107,476,288	276,980,259	277,805,250
Cost of revenue		(104,262,425)	(95,099,305)	(233,497,169)	(225,350,987)
Gross profit		17,614,597	12,376,983	43,483,090	52,454,263
General and administrative expenses		(11,624,881)	(14,503,909)	(23,961,739)	(27,033,390)
Selling and distribution expenses		(13,344,726)	(12,017,454)	(27,241,263)	(26,525,472)
Reversal / (allowance) for impairment of trade receivables	5	4,751,016	(1,500,000)	40,867,968	6,854,345
Operating (loss) income		(2,603,994)	(15,644,380)	33,148,056	5,749,746
Finance charges	9	(10,313,566)	(9,382,663)	(22,096,726)	(19,006,144)
Share in profit from an associate		720,000	750,000	1,450,000	1,538,915
Other (expenses) income, net	10	(1,144,393)	14,762,306	(281,754)	7,689,601
Net (loss) profit before zakat		(13,341,953)	(9,514,737)	12,219,576	(4,027,882)
Zakat		(2,098,371)	(780,000)	(4,196,741)	(1,560,000)
Net (loss) profit for the period		(15,440,324)	(10,294,737)	8,022,835	(5,587,882)
Other comprehensive income					
Item that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations		443,308	(1,831,643)	1,020,474	16,346,404
Other comprehensive income (loss) for the period		443,308	(1,831,643)	1,020,474	16,346,404
Total comprehensive (loss) income for the period		(14,997,016)	(12,126,380)	9,043,309	10,758,522
Net (loss) profit attributable to:					
Owners of the Company		(15,527,416)	(10,429,884)	7,790,243	(5,830,993)
Non-controlling interest		87,092	135,147	232,592	243,111
Net (loss) profit for the period		(15,440,324)	(10,294,737)	8,022,835	(5,587,882)
Total comprehensive (loss) income attributable to:					
Owners of the Company		(15,084,108)	(12,261,527)	8,810,717	10,515,411
Non-controlling interest		87,092	135,147	232,592	243,111
Total comprehensive (loss) income for the period		(14,997,016)	(12,126,380)	9,043,309	10,758,522
(Loss) earnings per share (SR) attributable to shareholders of the company					
Basic and diluted (loss) earnings per share	11	(0.63)	(0.43)	0.32	(0.24)

The 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 July 29, 2019.

Watheq Hassan Mohammed Shahatha **Chief Financial Officer**	**Hassan Mraizen Asiree** **Chief Executive Officer**	**Abdul Rahman Saleh Al Ubaid** **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, 2019

	Equity attributable to the shareholders of the Company						
	Share capital SR	Statutory reserve SR	Other reserves SR	Accumulated losses SR	Total SR	Non-controlling interest SR	Total equity SR
As at January 1, 2018 - as previously stated	450,000,000	66,248,858	(27,250,156)	(210,162,254)	278,836,448	4,881,894	283,718,342
IFRS 9 adjustment (note 5.1)	-	-	-	(49,500,302)	(49,500,302)	-	(49,500,302)
As at January 1, 2018 - as restated	450,000,000	66,248,858	(27,250,156)	(259,662,556)	229,336,146	4,881,894	234,218,040
Net loss for the period	-	-	-	(5,830,993)	(5,830,993)	243,111	(5,587,882)
Other comprehensive income for the period	-	-	16,346,404	-	16,346,404	-	16,346,404
Total comprehensive income for the period	-	-	16,346,404	(5,830,993)	10,515,411	243,111	10,758,522
As at June 30, 2018 (un-audited)	450,000,000	66,248,858	(10,903,752)	(265,493,549)	239,851,557	5,125,005	244,976,562
As at January 01, 2019 - (audited)	245,000,000	-	(8,107,729)	(103,865,781)	133,026,490	5,425,690	138,452,180
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)**	**(96,075,538)**	**141,837,207**	**5,658,282**	**147,495,489**

The 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 July 29, 2019.

Watheq Hassan Mohammed Shahatha **Chief Financial Officer**	**Hassan Mraizen Asiree** **Chief Executive Officer**	**Abdul Rahman Saleh Al Ubaid** **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 SIX MONTHS PERIOD ENDED JUNE 30, 2019

	June 30, 2019 (Un-audited) SR	June 30, 2018 (Un-audited) SR
Cash flow from operating activities		
Net profit (loss) for the period	**8,022,835**	(5,587,882)
Adjustments for:		
Depreciation of property, plant and equipment	**24,982,746**	24,682,046
Reversal of allowance for impairment of trade receivables, net	**(40,867,968)**	(6,854,345)
Finance charges	**22,096,726**	19,006,144
Zakat expense	**4,196,741**	1,560,000
Allowance for slow moving inventories	**-**	2,000,000
Share in profit from an associate	**(1,450,000)**	(1,538,915)
Amortization of intangible assets	**737,745**	719,672
Gain on sale of property, plant and equipment	**(19,656)**	(137,538)
Loss on disposal of a subsidiary's net assets	**-**	17,004,721
Provision for employees' end of service benefits	**1,980,936**	1,950,867
	19,680,105	52,804,770
Changes in operating assets and liabilities:		
Trade receivables	**42,141,772**	(44,388,251)
Inventories	**(23,369,895)**	669,222
Advances, prepayments and other assets	**18,973,397**	21,560,973
Trade payables	**(13,239,165)**	4,000,057
Accrued expenses and other liabilities	**(5,154,664)**	8,913,682
Cash generated from operating activities	**39,031,550**	38,696,228
Finance charges paid	**(21,891,827)**	(19,006,144)
Employees' end of service benefits paid	**(1,129,254)**	(1,487,215)
Net cash generated from operating activities	**16,010,469**	18,202,869
Cash flow from investing activities		
Purchase of property, plant and equipment	**(3,713,196)**	(5,339,147)
Dividend received from an associate	**1,560,000**	-
Additions to intangible assets	**-**	(231,922)
Proceeds from disposal of net assets of a subsidiary	**-**	16,051,822
Proceeds from disposal of property, plant and equipment	**20,453**	234,868
Net cash flows (used in) generated from investing activities	**(2,132,743)**	10,715,621
Cash flow from financing activities		
Lease payments	**(903,200)**	-
Change in short term loans, net	**12,107,281**	(9,454,350)
Change in medium and long term loans, net	**(28,301,685)**	(19,528,156)
Net cash used in financing activities	**(17,097,604)**	(28,982,506)
Net change in cash and cash equivalents	**(3,219,878)**	(64,016)
Cash and cash equivalents at the beginning of the period	**22,844,638**	24,248,819
Effect of exchange rate fluctuations	**1,017,518**	(4,164,274)
Cash and cash equivalents at the end of the period	**20,642,278**	20,020,529

Cash flow supplemental information 13

The 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 July 29,2019.

Watheq Hassan Mohammaed Shahathaa	**Hassan Mraizen Asiree**	**Abdul Rahman Saleh Al Ubaid**
Chief Financial Officer	**Chief Executive Officer**	**Chairman**

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

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 245 million divided into 24.5 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 September 10, 2018 approved recommendation of the Board of Directors of the Company to reduce the share capital of the Company from SR 450,000,000 to SR 245,000,000 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 reduced from 45,000,000 to 24,500,000 by way of cancellation of shares and the capital was accordingly reduced to SR 245 million.

These condensed consolidated interim financial statements have been prepared assuming that the group will continue as a going concern. As of June 30, 2019, the current liabilities of the Group exceeded its current assets by SR 169.7 million (December 31, 2018: SR 147.5) mainly on account of short term loans and current portion of medium and long term loans amounting to SR 142.9 million and SR 206.3 million, respectively (December 31, 2018: SR 130.8 million and SR 181.8 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 22.67 million as of June 30, 2019. 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 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 ("The Group') as listed below:

Subsidiary	**Country of incorporation**	**Effective ownership**	
		June 2019	December 2018
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%
Morocco Paper Converting Company	Morocco	**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, 2018, two of above mentioned subsidiaries i.e. Al Madar Paper Trading (Al Madar) and Morocco Paper Converting Company are classified as held for sale as required by IFRS 5 – "Non-Current Assets Held For Sale And Discontinued Operations".

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, 2019 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, 2018.

2.2 Preparation of the condensed consolidated interim financial statements

These condensed consolidated interim financial statements are prepared under the historical cost convention, as modified for financial assets at fair value through other comprehensive income and by using the actuarial basis for employees' end of service benefits, on the accrual basis of accounting. 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, 2018 except for the adoption of new amd amended standards as disclosed in note 3.2.

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 except for new significant judgments and key source of estimates as disclosed in note 3.3.

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 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.

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 New standards, amendments to standards and interpretations

The Group has adopted IFRS-16 Leases from January 1, 2019. The impact of adoption of IFRS 16 is disclosed in the note 3.3. A number of other new standards, interpretations and amendments to the standards are effective from January 1, 2019, but they don't have material effect on the Group's condensed consolidated interim financial statements.

There are number of amendments to standards which are effective from January1, 2020, however, management anticipates that these amendments will not have any material impact on adoption in the Group's consolidated financial statements.

3.3 Change in significant accounting policy

IFRS 16 – Leases

IFRS 16 replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

IFRS 16 'Leases' introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the previous standard – i.e. lessors continue to classify leases as finance or operating leases.

In accordance with the transition provisions in IFRS 16, the Group has dopted IFRS 16 retrospectively with the cummulaive effect of initially applying the new standard recognised on January 1, 2019. Comparatives for 2018 financial year have not been restated.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5%.

Impact of adoption of IFRS 16

	January 1, 2019 **SR**
Operating lease commitments as at December 31, 2018	11,677,601
Discounted using the group's incremental borrowing rate of 5%	8,594,265
Lease liability recognised as at January 1, 2019	8,594,265

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rule had always been applied as of January 1, 2019. Right-of-use assets for property leases were measured at the amount equal to lease liability, adjusted by the amount of prepayments related to that leases recognized in the statement of financial position as at December 31, 2018. Property, plant and equipment increased by an amount of SR 8,650,545 and prepayments reduced by SR 56,280 on January 1, 2019.

4 PROPERTY, PLANT AND EQUIPMENT

4.1 The Group acquired assets in six months period ended June 30, 2019 amounting to SR 3.71 million (period ended June 30, 2018: SR 5.34 million).

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

	June 30, 2019 (Un-audited) SR	January 1, 2019 (Un-audited) SR
Right of use assets		
Lands	**8,277,821**	8,650,545
	8,277,821	8,650,545

4.2 Impairment of unutilized plant and machinery

During the year ended December 31, 2018, the management has engaged a third party consultant for the impairment assessment of certain unutilized assets of property, plant and equipment amounting to SR 75 million which were not fully utilized during the year ended December 31, 2018. Based on the results of this assessment, an impairment loss of SR 36.9 million was recorded for the year ended December 31, 2018. 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, after the recongnized impairment, does not exceed their recoverable amount as of June 30, 2019.

4.3 Impairment on working plant and machinery

Management has performed an impairment assessment of its property, plant and equipment as at December 31, 2018. The assessment includes assumptions related to future sales volume, prices, annual growth rates, terminal growth rates, discount rates and other related factors. The outcome of these assumptions is highly dependent on the success of future operations as estimated by management and achieving its plans in future. Based on the result of impairment exercise, management has recognized an impairment loss in the carrying value of property, plant and equipment as at December 31, 2018, amounting to SR 6.5 million. Management is confident of its ability to meet its future business plan and believes that the carrying value of property, plant and equipment as of June 30, 2019, will be recovered from the future operations.

5. TRADE RECEIVABLES

	Note	**June 30, 2019 (Un-audited) SR**	December 31, 2018 (Audited) SR
Trade receivables		**258,472,469**	301,927,337
Allowance for impairment of trade receivables	5.1	**(96,550,251)**	(138,731,315)
		161,922,218	163,196,022

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

	Note	**June 30, 2019 (Un-audited) SR**	December 31, 2018 (Audited) SR
Opening balance		**138,731,315**	70,932,227
Impact of IFRS 9 adoption		**-**	49,500,302
Charge for the period / year		**3,000,000**	28,235,283
Write offs		**(1,313,096)**	-
Reversals during the period / year	5.2	**(43,867,968)**	(9,936,497)
		96,550,251	138,731,315

5.2 Management has performed an assessment for the impairment of Group's trade receivables as of June 30, 2019. Based on the results of this assesment, a reversal in allowance for impairment of trade receivables, amounting to SR 43.87 million, is recognized during the six months period June 30, 2019.

6. LOANS

a) Medium and long-term loans

	Note	June 30, 2019 (Un-audited) SR	December 31, 2018 (Audited) SR
Saudi Industrial Development Fund ("SIDF") loans	6.1	**43,572,000**	46,572,000
Commercial bank loans	6.2	**531,626,437**	556,928,122
		575,198,437	603,500,122
Current maturity of long term loans		**(206,333,814)**	(181,800,750)
		368,864,623	421,699,372

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 June 30, 2019, based on their respective repayment schedules, are spread in 2019 through 2023.

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.

7. LEASE LIABILITIES

	June 30, 2019 (Un-audited) SR	January 1, 2019 (Un-audited) SR
Current	**603,375**	903,200
Non-current	**7,292,589**	7,691,065
	7,895,964	8,594,265

8. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The related parties consist of subsidiaries, affiliates and Board of Directors and key management personnel. 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, 2019 (Un-audited) SR	June 30, 2018 (Un-audited) SR
Short-term employees benefits	**3,581,950**	3,874,500
Employees' end of service benefits	**144,988**	161,438
	3,726,938	4,035,938

9. 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 2019 and 2018.

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, 2019 (Un-audited)	**Reportable segments**		
	Manufacturing SR	**Trading, transport and others SR**	**Total 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**	**4,262,567**	**12,219,576**
Finance charges	**21,384,843**	**711,883**	**22,096,726**
Depreciation and amortization	**24,699,547**	**1,020,944**	**25,720,491**
Segment assets	**964,902,267**	**82,272,763**	**1,047,175,030**
Segment liabilities	**829,103,053**	**70,576,488**	**899,679,541**

Six months period ended June 30, 2018 (Un-audited)	Reportable segments		
	Manufacturing SR	Trading, transport and others SR	Total SR
Segmental revenues	338,199,572	25,780,398	363,797,970
Inter-segment revenue	(76,850,913)	(9,317,807)	(86,174,720)
External revenue	261,342,659	16,462,591	277,805,250
Net profit / (loss) before zakat	1,171,416	(5,199,298)	(4,027,882)
Finance charges	18,466,346	559,798	19,006,144
Depreciation and amortization	25,032,513	369,205	25,401,718
Segment assets	1,154,072,601	91,544,644	1,245,617,245
Segment liabilities	870,701,515	80,438,866	951,140,381

9. 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.

	June 30, 2019 (Un-audited) SR	June 30, 2018 (Un-audited) SR
- Revenue		
Saudi Arabia	**247,216,635**	244,204,037
GCC countries	**20,935,636**	21,952,304
Other countries	**8,827,988**	11,648,909
Consolidated revenue	**276,980,259**	277,805,250
- Non-current assets		
Saudi Arabia	**670,954,541**	736,444,785
GCC countries	**30,548,258**	30,602,052
Other countries	**8,213,388**	28,209,953
Consolidated non-current assets	**709,716,187**	795,256,790

10. OTHER (EXPENSE) / INCOME, NET

	Note	**Six months June 30, 2019 (Un-audited) SR**	Six months June 30, 2018 (Un-audited) SR
Reversal of creditors balance		**4,795**	13,199,523
Loss on disposal of a subsidiary's net assets	10.1	**-**	(17,004,721)
Others, net		**(286,549)**	11,494,799
		(281,754)	7,689,601

10.1 During the period ended June 30, 2018, the Group has sold net assets of its fully owned subsidiary in Turkey. Net assets of the subsidiary sold were SR 33 million and the sale proceeds received were SR 16 million resulting a loss amounting to SR 17 million mainly attributable to exchange differences on translation of foreign operations.

11. (LOSS) EARNINGS PER SHARE

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

(Loss) earnings per share are represented as follows:

	From April 1 to June 30		**From January 1 to June 30**	
	2019 (Un-audited)	2018 (Un-audited)	**2019 (Un-audited)**	2018 (Un-audited)
Net (loss) profit for the period (SR)	**(15,527,416)**	(10,429,883)	**7,790,243**	(5,830,993)
Weighted average number of outstanding shares	**24,500,000**	24,500,000	**24,500,000**	24,500,000
Basic/ Dilutive (loss) earnings per share (SR)	**(0.63)**	(0.43)	**0.32**	(0.24)

12. FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities comprise trade payables, lease liability, certain other liabilities and loans. The Group's principal financial assets are cash and cash equivalents and trade and certain other receivables. The main financial risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks which are summarized below:

Market risk
Market risk is the risk that changes in market prices, such as interest rates and foreign currency exchange rates may affect the Group's income. The Group was exposed to market risk, in the form of interest rate risk and foreign currency risk as described below, during the period under review. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk management
Foreign currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates. The Group's major financial assets and financial liabilities are denominated in Saudi Riyal, US Dollar (USD), Algerian Dinar (DZD), Jordian Dinar (JOD), Kuwaiti Dinar (KUW), Morocco Dirham (MAD) and United Arab Emirates Dirham (AED). Saudi riyals, Kuwaiti Dinar, United Arab Emirates Dirham are pegged to the US Dollar, consequently balances in other currencies are not considered to represent a currency risk. Management monitors the fluctuations in Algerian Dinar, Morocco Dirham currency exchange rates with Saudi Riyals and manages its effect on the financial statements accordingly.

Following balances are exposed to foreign currency risks;

	Currency	June 30, 2019 (Un-audited) SR	December 31, (Audited) SR
Cash and cash equivalent	KUW	**2,612,062**	7,199,700
	DZD	**4,497,033**	4,044,871
	JOD	**45,269**	45,270
	AED	**76,884**	76,884
		7,231,248	11,366,725
Trade receivables	KUW	**10,812,871**	11,618,466
	DZD	**2,037,806**	1,607,905
	JOD	**22,920**	22,928
	AED	**276,728**	148,536
		13,150,325	13,397,835
Trade payable and other liabilities	KUW	**(7,156,382)**	(7,569,084)
	DZD	**(2,052,921)**	(1,875,456)
	JOD	**(280,484)**	(280,591)
	AED	**(1,542,735)**	(1,542,735)
		(11,032,522)	(11,267,866)
Net statement of financial position exposure		**9,349,051**	13,496,694

Interest rate and liquidity risk management:

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

12. FINANCIAL RISK MANAGEMENT (Continued)

Interest rate sensitivity analysis:

The following table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows:

June 30, 2019 (Un-audited)	**Interest rate**	**Within one year SR**	**One year to five years SR**	**Total SR**
Trade payable and other liabilities	Interest free	**138,876,037**	**-**	**138,876,037**
Lease liabilities	Incremental borrowing rate	**603,375**	**7,292,589**	**7,895,964**
Short term loans	SAIBOR+MARGIN	**142,908,658**	**-**	**142,908,658**
Medium and long term loan	SAIBOR+MARGIN	**206,333,814**	**368,864,623**	**575,198,437**
		488,721,884	**376,157,212**	**864,879,096**

December 31, 2018 (Audited)	Interest rate	Within one year SR	One year to five years SR	Total SR
Trade payable and other liabilities	Interest free	156,528,762	-	156,528,762
Short term loans	SAIBOR+MARGIN	130,801,377	-	130,801,377
Medium and long term loan	SAIBOR+MARGIN	181,800,750	421,699,372	603,500,122
		469,130,889	421,699,372	890,830,261

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has interest bearing loans at June 30, 2019.

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. The group does not hedge its exposure to movements in interest rates. Management limits the Group's interest rate risk by monitoring changes in interest rates.

As of June 30, 2019, current liabilities exceeded current assets by SR 169.7 million. The Group is managing its future cash flow requirements through the cash inflows from operations and unavailed credit facilities. Management is confident of its ability to renew these facilities as they become due and avail new facilities as required in addition to restructuring its short, medium and long term loan as the need necessitates.

Credit risk:

Credit risk is the risk that one party may fail to discharge an obligation and cause the other party to incur a financial loss. The Group has no significant concentration of credit risk. Cash and cash equivalent are placed with local banks with sound banking reputation. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at amortized cost.

The maximum exposure to credit risk at the reporting date was

Description	**June 30, 2019 (Un-audited) SR**	December 31, 2018 (Audited) SR
Trade receivables, net	**161,922,218**	163,196,022
Other receivables	**13,091,007**	15,767,159
Financial assets at FVTOCI	**1,067,062**	1,067,062
Cash at banks	**17,913,216**	20,354,548
	193,993,503	200,384,791

12. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued):

The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. With respect to credit risk arising from the financial assets of the Group, including receivables from employees and bank balances, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these assets in the condensed consolidated interim statement of financial position.

Capital management:

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from the previous period/year.

The capital structure of the Group consists of equity and debt, comprising share capital, statutory reserve, accumulated losses, other reserves and loans. The Group is not subject to any externally imposed capital requirements.

Fair value of financial instruments:

The Group's management consider that the carrying values of the financial instruments reported in the statement of financial position approximate their fair values**.**

13. SUPPLEMENTAL CASHFLOW INFORMATION

	June 30, 2019 (Un-audited) SR	June 30,2018 (Un-audited) SR
Right of use assets	**8,277,821**	-

14. CONTINGENCIES AND COMMITMENTS

As of June 30, 2019, the Group was contingently liable for letter of credits and bank guarantees issued in the normal course of the business amounting to SR 7.1 million (December 31, 2018: SR 17.6 million) and SR 1.03 million (December 31, 2018: SR 1.03 million).

15. COMPARATIVE FIGURES

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

16. SUBSEQUENT EVENT

Subsequent to the period ended June 30, 2019, on July 22, 2019, the Company has signed an agreement with Samba Financial Group ("the Bank") for a Shariah compliant credit facility ("the facility") to reschedule its existing financing with the Bank. The Company has rescheduled the facility to meet its cash flow requirements.

17. APPROVAL OF FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved by the board of directors and authorized for issue on July 29, 2019 corresponding to 26 Dhul Qadah 1440H.