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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
AND INDEPENDENT AUDITOR'S REPORT

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019

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Independent auditor's report to the shareholders of Middle East Company for Manufacturing and Producing Paper

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Middle East Company for Manufacturing and Producing Paper (the "Company") and its subsidiaries (together the "Group") as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Key audit matter	• Implementation of International Financial Reporting Standard 16 *'Leases'* (IFRS 16)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. The matter described below was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Key audit matter

Implementation of International Financial Reporting Standard 16 'Leases' (IFRS 16)

The Group adopted IFRS 16 'Leases' with effect from January 1, 2019. This new standard supersedes the requirements of International Accounting Standard 17 *'Leases' (IAS 17)*.

IFRS 16 represents a significant change in accounting for leases which had previously been classified as "operating leases" under the principles of IAS 17. IFRS 16 principally modifies the accounting treatment of such operating leases at inception, by recognizing as of January, 1, 2019 both a right-of-use asset and a corresponding liability for the amount of lease payments over the term of the lease contract discounted using lessee's incremental borrowing rate ("IBR"). The IBR method is used where the implicit rate of interest in a lease is not readily determinable.

Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at December 31, 2018.

Management performed a detailed analysis of each lease contract in existence at January 1, 2019 to identify how each lease would be affected by differences between the requirements of the two standards, identify changes required to be made to existing accounting policies and determine transition adjustments and consequential changes to processes and controls required particularly in connection with identification of whether an arrangement meets the definition of a lease.

The Group has adopted IFRS 16 retrospectively from January 1, 2019 but has not restated comparatives for the year ended December 31, 2018, as permitted under the specific transitional provisions in IFRS 16. Accordingly, this resulted in recognition of right-of-use assets of Saudi Riyals 50.48 million as at January 1, 2019 and lease liabilities of Saudi Riyals 49.98 million as of that date.

Management also assessed the disclosure requirements of the new standard to be made in the accompanying consolidated financial statements.

How our audit addressed the Key audit matter

We performed the following procedures in relation to the Group's implementation of IFRS 16:

- Reviewed management's assessment of the impact of IFRS 16 in terms of the classification and measurement of its right-of-use assets and lease liabilities, and understood the approach taken towards implementation.
- Tested completeness of the lease register by testing the reconciliation of the lease liabilities recognised at January 1, 2019 to the Group's operating lease commitments as at December 31, 2018. Also tested management's assessment of contracts on a sample basis for inclusion or exclusion of leases at the adoption date.
- Tested the accuracy of lease data on a sample basis by testing lease data captured by management through inspection of lease documents.
- Tested lease schedules, on a sample basis, by recalculating the amounts underlying the right-of-use assets and lease liabilities, based on terms of the lease contracts and traced prepaid and accrued expenses. We also tested the arithmetical accuracy of those individual lease schedules and how these accumulated into the total adjustment applied in the accompanying consolidated financial statements as at January 1, 2019.
- Assessed the appropriateness of the discount rates used in the computation of lease liabilities.
- We also reviewed the adequacy of the disclosures included in the accompanying consolidated financial statements in relation to the implementation of the new standard.

Key audit matter	How our audit addressed the Key audit matter
Implementation of International Financial Reporting Standard 16 'Leases' (IFRS 16) *(continued)* We considered this to be a key audit matter because the calculations of amounts underlying the right-of-use assets and the corresponding lease liabilities involve new processes for collecting data, complex rules and the application of management judgement relating to the terms of the various lease contracts and the discount rate to be applied. *Refer to Note 2.3(a), which explains the impact of the adoption of the new accounting standard, Note 3.8 for the accounting policy and Notes 6 and 20 for the related disclosures in the accompanying consolidated financial statements.*	

Other information

Management is responsible for the other information. The other information comprises the information included in the Board of Director's Report of the Group but does not include the consolidated financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Board of Director's Report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

Independent auditor's report to the shareholders of Middle East Company for Manufacturing and Producing Paper (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

PricewaterhouseCoopers

Mufaddal A. Ali
License Number 447

March 18, 2020

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C.R. 4030289002

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2019
(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
Assets			
Non-current assets			
Property, plant and equipment	5	**1,056,884,444**	1,040,868,466
Right-of-use assets	6	**43,313,001**	-
Intangible assets	7	**2,018,137**	3,580,821
Derivative financial instruments	8	-	2,064,063
Total non-current assets		**1,102,215,582**	1,046,513,350
Current assets			
Inventories	9	**208,074,647**	213,933,195
Trade receivables	10	**159,881,870**	156,877,366
Prepayments and other receivables	11	**15,927,918**	15,046,939
Other current assets	12	**67,457,820**	43,948,837
Financial asset at fair value through profit or loss	13	**39,434**	524,256
Cash and cash equivalents	14	**23,213,483**	28,842,546
Total current assets		**474,595,172**	459,173,139
Total assets		**1,576,810,754**	1,505,686,489
Equity and liabilities			
Equity			
Share capital	15	**500,000,000**	500,000,000
Statutory reserve	16	**84,220,419**	83,607,622
Treasury shares	17	**(6,816,812)**	(6,816,812)
Retained earnings		**153,974,608**	174,522,254
Net equity		**731,378,215**	751,313,064
Liabilities			
Non-current liabilities			
Long-term borrowings	19	**342,918,084**	360,361,646
Lease liabilities	20	**37,896,894**	-
Derivative financial instruments	8	**224,625**	-
Employees' end of service benefits	21	**43,932,711**	39,912,063
Total non-current liabilities		**424,972,314**	400,273,709
Current liabilities			
Zakat payable	22	**1,437,193**	4,020,197
Current portion of long-term borrowings	19	**141,617,251**	128,352,211
Current portion of lease liabilities	20	**5,456,196**	-
Derivative financial instruments	8	**15,416**	-
Short-term borrowings	23	**171,700,857**	128,301,031
Trade and other payables	24	**97,374,542**	90,097,948
Other current liabilities	25	**2,858,770**	3,328,329
Total current liabilities		**420,460,225**	354,099,716
Total liabilities		**845,432,539**	754,373,425
Total equity and liabilities		**1,576,810,754**	1,505,686,489

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

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

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2019
(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
Revenue	4	**691,077,493**	833,613,856
Cost of revenue	26	**(549,367,624)**	(597,939,514)
Gross profit		**141,709,869**	235,674,342
Selling and distribution expenses	27	**(53,297,734)**	(44,107,432)
General and administrative expenses	28	**(58,788,666)**	(61,714,260)
Impairment losses on financial assets	10	**(4,187)**	(1,394,492)
Fair value (loss)/gain on derivative financial instruments		**(2,304,104)**	706,825
Other operating income/(expenses) - net	29	**4,544,426**	(934,689)
Operating profit		**31,859,604**	128,230,294
Finance costs - net	30	**(24,821,843)**	(26,013,446)
Profit before zakat		**7,037,761**	102,216,848
Zakat expense	22	**(909,789)**	(2,772,913)
Profit for the year		**6,127,972**	99,443,935
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial losses on re-measurement of employee benefit obligations	21	**(1,062,821)**	(1,194,249)
Total comprehensive income		**5,065,151**	98,249,686
Earnings per share:			
Basic and diluted	32	**0.12**	2.00

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

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

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2019
(Expressed in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Treasury shares	Retained earnings	Total
Balance as at January 1, 2019		500,000,000	83,607,622	(6,816,812)	174,522,254	**751,313,064**
Profit for the year		-	-	-	6,127,972	**6,127,972**
Other comprehensive loss for the year		-	-	-	(1,062,821)	**(1,062,821)**
Total comprehensive income for the year		-	-	-	5,065,151	**5,065,151**
Transfer to statutory reserve	16	-	612,797	-	(612,797)	-
Dividends	35	-	-	-	(25,000,000)	**(25,000,000)**
Balance as at December 31, 2019		**500,000,000**	**84,220,419**	**(6,816,812)**	**153,974,608**	**731,378,215**
Balance as at January 1, 2018		500,000,000	73,663,228	-	148,716,962	722,380,190
Profit for the year		-	-	-	99,443,935	99,443,935
Other comprehensive loss for the year		-	-	-	(1,194,249)	(1,194,249)
Total comprehensive income for the year		-	-	-	98,249,686	98,249,686
Transfer to statutory reserve	16	-	9,944,394	-	(9,944,394)	-
Purchase of treasury shared	17	-	-	(6,816,812)	-	(6,816,812)
Dividends	35	-	-		(62,500,000)	(62,500,000)
Balance as at December 31, 2018		500,000,000	83,607,622	(6,816,812)	174,522,254	751,313,064

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

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

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2019
(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
Cash flows from operating activities			
Profit before zakat		**7,037,761**	102,216,848
Adjustments for:			
Depreciation and amortization	5,6,7	**95,825,257**	86,797,813
Finance costs	30	**24,821,843**	26,013,446
(Gain)/loss on disposal of property and equipment	29	**(390,125)**	526,421
Allowance for impairment of trade receivables	10	**4,187**	1,394,492
Allowance for slow moving inventories	9	**3,600,000**	3,067,797
Provision against advances to suppliers and employees	12	**1,500,206**	-
Employees' end of service benefits	21	**6,495,935**	5,630,936
Fair value loss/(gain) on derivative financial instruments		**2,304,104**	(706,825)
Gain on disposal of financial assets at fair value through profit or loss		**(3,250,266)**	-
Fair value gain on financial asset at fair value through profit or loss	13	**(15,178)**	(11,953)
Changes in operating assets and liabilities:			
Inventories		**2,258,548**	(36,828,525)
Trade receivables		**(3,008,691)**	51,345,723
Prepayments and other receivables		**(1,806,098)**	(2,857,788)
Other current assets		**(25,009,189)**	88,432
Trade and other payables		**7,307,159**	12,511,678
Other current liabilities		**(125,714)**	(1,358,544)
Cash generated from operations		**117,549,739**	247,829,951
Finance costs paid		**(26,284,064)**	(23,875,071)
Zakat paid	22	**(3,492,793)**	(1,759,375)
Employees' end of service benefits paid	21	**(3,538,108)**	(2,243,895)
Net cash inflow from operating activities		**84,234,774**	219,951,610
Cash flows from investing activities			
Acquisition of property and equipment	5	**(102,779,597)**	(60,484,680)
Proceeds on disposal of property and equipment		**2,448,333**	139,951
Acquisition of investment at fair value through profit or loss	13	**(24,065,394)**	-
Proceeds from sale of investments at fair value through profit or loss		**27,815,660**	-
Net cash outflow from investing activities		**(96,580,998)**	(60,344,729)
Cash flows from financing activities			
Net change in short-term borrowings		**42,998,576**	(94,244,433)
Proceeds from long-term borrowings	19	**205,000,000**	162,000,000
Repayments of long-term borrowings	19	**(209,095,715)**	(160,218,750)
Principal elements of lease payments	20	**(7,185,700)**	-
Purchase of treasury shares	17	**-**	(6,816,812)
Dividends paid	35	**(25,000,000)**	(62,500,000)
Net cash outflow from financing activities		**6,717,161**	(161,779,995)
Net change in cash and cash equivalents		**(5,629,063)**	(2,173,114)
Cash and cash equivalents at beginning of year		**28,842,546**	31,015,660
Cash and cash equivalents at end of year	14	**23,213,483**	28,842,546

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

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

(Expressed in Saudi Riyals unless otherwise stated)

1. General information

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

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

At December 31, 2019, the Company had investments in the following subsidiaries (collectively referred to as "Group"):

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

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

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), that are endorsed in the Kingdom of Saudi Arabia, other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (SOCPA), and interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRSIC).

2.2 Accounting convention / Basis of measurement

These consolidated financial statements have been prepared on a going concern basis and on historical cost convention except where IFRS requires other measurement basis as disclosed in the applicable accounting policies in Note 3 – Significant accounting policies.

2. Basis of preparation (continued)

2.3 New and ammended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their reporting periods commencing on or after January 1, 2019.

Annual Improvements to IFRS Standards 2015 - 2017

These amendments include minor changes to IAS 23 - Borrowing costs – a company treats as part of general borrowings any long-term borrowing originally made to develop a qualified asset when the asset is ready for its intended use or sale. (Accounting policy 3.13 and Note 5). A portion of the finance cost paid on the general borrowings is capitalized as part of the qualifying asset presented in capital work-in-progress.

International Financial Reporting Standards Interpretations Committee ("IFRS IC") 23 - Uncertainty over income tax treatments

This IFRIC clarifies how the recognition and measurement requirements of IAS 12 - Income taxes, are to apply where there is uncertainty over income tax treatments. The IFRIC had clarified previously that IAS 12, not IAS 37 - Provisions, contingent liabilities and contingent assets, applies to accounting for uncertain income tax treatments.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

Impact of changes in accounting policies due to the adoption of new IFRS standards

The Group has adopted International Financial Reporting Standard 16 *Leases* (IFRS 16) from January 1, 2019. This note explains the impact of the adoption of IFRS 16 on the Group's financial statements and discloses the new accounting policies that have been applied from January 1, 2019 in Note 3 below.

The Group has adopted IFRS 16 from January 1, 2019 but has not restated comparatives for the year-ended December 31, 2018, as permitted under the specific transitional provisions in IFRS 16. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet at January 1, 2019.

a) Adjustments recognised on adoption of IFRS 16

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 are now measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of January 1, 2019. The weighted average Group's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.83%.

(Expressed in Saudi Riyals unless otherwise stated)

2. Basis of preparation (continued)

2.3 New and ammended standards adopted by the Group (continued)

	January 1, 2019 (Date of initial application)
Operating lease commitments	61,820,358
Discounting impact using the lessee's incremental borrowing rate	(9,884,100)
Less: short-term leases recognised on a straight-line basis as expense	(1,954,743)
Lease liability recognised	49,981,515
Classified as:	
Current lease liabilities	6,478,666
Non-current lease liabilities	43,502,849
	49,981,515

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at January 1, 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at January 1, 2019 (date of initial application).

The recognised right-of-use assets relate to the following types of assets:	December 31, 2019	January 1, 2019
Leased land	**41,847,735**	47,168,541
Buildings	**1,465,266**	3,307,027
Total right-of-use assets	**43,313,001**	50,475,568

The change in accounting policy affected the following items in the statement of financial position on January 1, 2019:

- right-of-use assets – increase by Saudi Riyals 50.48 million
- prepayments – decrease by Saudi Riyals 0.92 million
- lease liabilities – increase by Saudi Riyals 49.98 million.
- other liabilities – decrease by Saudi Riyals 0.34 million.

There is no net impact on retained earnings on January 1, 2019 as a consequence of change in accounting policy.

b) Impact on segment disclosures and earnings per share

Segment assets and segment liabilities for December 31, 2019 are increased as a result of the adoption of IFRS 16. The following segments were affected by the change in policy:

	Manufacturing	Trading	Eliminations	Total
As at December 31, 2019				
Impact on assets	325,008	42,987,993	-	**43,313,001**
Impact on liabilities	288,290	43,064,800	-	**43,353,090**

Earnings per share increased by Saudi Riyal 0.0025 per share and Saudi Riyal 0.0130 per share for the three-month and twelve-month periods year ended December 31, 2019, respectively as a result of the adoption of IFRS 16.

2. Basis of preparation (continued)

2.3 New and ammended standards adopted by the Group (continued)

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

2.4 Standards and interpretations issued but not yet applied by the Group

The following new accounting standards, amendments to standards and interpretations have been published by IASB that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Group.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform

These amendments provide certain reliefs in connection with interest rate benchmark reform.

Transition from LIBOR to risk free rates

In July 2017, the United Kingdom Financial Conduct Authority ('FCA'), which regulates the London Interbank Offered Rate ('LIBOR'), announced that the interest benchmark would cease after 2021. LIBOR is one of the most common series of benchmark interest rates.

LIBOR reforms and expectation of cessation of LIBOR will impact the Group's current risk management strategy and possibly accounting for certain financial instruments. The Group has certain borrowings which are exposed to the impact of LIBOR as at December 31, 2019.

As part of the Group's risk management strategy, the Group uses financial instruments to manage exposures arising from variation of interest rates that could affect comprehensive income.

The Group assessed that the impact of transition from LIBOR to risk free rates will not be significant on Group's financial statements as all of its LIBOR based borrowings will be paid before or during the year 2021.

2.5 Functional and presentation currency

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

2. Basis of preparation (continued)

2.6 Use of judgments and estimates

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements was prepared.

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

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

(a) *Allowance for impairment of financial assets*

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

(b) *Allowance for inventory obsolescence*

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

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

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

(d) *Employee benefits – defined benefit plan*

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

2 Basis of preparation (continued)

2.6 Use of judgments and estimates (continued)

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

All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. With respect to determining the appropriate discount rate, yield and duration of high quality bonds obligation, as designated by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. Please see Note 19 for assumptions used.

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

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

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

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

(f) *Zakat*

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

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

3. Significant accounting policies

The accounting policies adopted by the Group for the preparation of these consolidated financial statements are consistent with those followed in preparation of the Group's annual consolidated financial statements for the year ended December 31, 2018, except for accounting policies related to the new standard adopted by the Group effective as of January 1, 2019 (see Note 2.3).

3.1 Basis of consolidation

(a) *Subsidiaries*

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

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

3 Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

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

(b) Eliminations on consolidation

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

3.2 Property, plant and equipment

(a) Recognition and measurement

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

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

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

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

(b) Subsequent costs

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

(c) Depreciation

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

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

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

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

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

3. Significant accounting policies (continued)

3.2 Property, plant and equipment (continued)

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

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

Borrowing costs related to qualifying assets are capitalised as part of the cost of the qualified assets until the commencement of commercial production.

Capital work-in-progress is measured at cost less any recognized impairment.

3.3 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets comprise software, which have finite lives and are amortised over five years from the implementation date. The amortization expense on intangible assets is recognized in the profit or loss in the expense category consistent with the function of the intangible asset. These are tested for impairment whenever there is an indication that the intangible may be impaired. The amortization period and the amortization method for an intangible asset, with a finite useful life, is reviewed at least annually. Any change in the estimated useful life is treated as a change in accounting estimate and accounted for prospectively.

3.4 Inventories

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

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

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

3.5 Cash and cash equivalents

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

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

3.6 Foreign currency

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

3. Significant accounting policies (continued)

3.6 Foreign currency (continued)

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

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

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

3.7 Financial instruments

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

(i) Financial assets

Classification
On initial recognition, a financial asset is classified in the following categories:
- subsequently measured at amortised cost;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – debt instrument;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – equity instrument; or
- subsequently measured at fair value through profit and loss ("FVPL").

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

Debt instruments

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

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

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

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

(a) Measurement

Initial recognition

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

3. Significant accounting policies (continued)

3.7 Financial instruments (continued)

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

Subsequent measurement

Debt instruments subsequently measured at amortised cost

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

Instruments subsequently measured at fair value

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

(b) Derecognition

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

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

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

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

(c) Impairment

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

3. Significant accounting policies (continued)

3.7 Financial instruments (continued)

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

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

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

(ii) Financial liabilities

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

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

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

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

(iii) Offsetting

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

(iv) Derivative financial instruments

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

3.8 Leases

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

Until the 2018 financial year-end, above leases were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

3. Significant accounting policies (continued)

3.8 Leases (continued)

From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

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

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

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

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

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

3.9 Impairment of assets

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

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

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

3. Significant accounting policies (continued)

3.10 Employee benefits

Short-term employee benefits

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

Post-employment benefits

Defined benefit plans

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

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

Proposed Employee Share Option Scheme (ESOP)

The Company has a proposed ESOP scheme for which required approvals were still in progress as of December 31, 2019. See also Note 3.20.

3.11 Provisions

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

3.12 Revenue

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

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

3. Significant accounting policies (continued)

3.12 Revenue (continued)

The Group recognizes revenue from the following major sources:

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

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

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

- Transportation of goods

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

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

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

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

<u>Rendering of services – transportation of goods to customers</u>

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

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

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

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

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

3. Significant accounting policies (continued)

3.12 Revenue (continued)

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

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

3.13 Borrowings

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

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

3.14 Zakat

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

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

3.15 Selling and distribution expenses

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

3.16 General and administrative expenses

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

3.17 Earnings per share

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

3. Significant accounting policies (continued)

3.17 Earnings per share (continued)

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

3.18 Segment reporting

Operating Segment

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

An operating segment is group of assets and operations:

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

3.19 Share capital

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

3.20 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost. Treasury shares are presented as a deduction from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised as share premium or discount which is presented in equity. These treasury shares are purchased in advance for the proposed Employee Share Option Programme ("ESOP") for which required approvals were still in progress as of December 31, 2019.

3.21 Dividends

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

4. Segment information

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

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

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

(Expressed in Saudi Riyals unless otherwise stated)

4. Segment information (continued)

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenues and profit (loss) before zakat, as included in the internal management reports that are reviewed by the top management.

The following table presents segment information:

	Manufacturing	Trading	Elimination	Total
Results for the year ended December 31, 2019				
Revenues	**669,888,517**	**238,233,825**	**(217,044,849)**	**691,077,493**
External revenues	**669,888,517**	**21,188,976**	**-**	**691,077,493**
Segment profit (loss) before zakat	**6,900,858**	**1,727,473**	**(1,590,570)**	**7,037,761**
Zakat	**772,886**	**136,903**	**-**	**909,789**
Financial costs	**24,149,701**	**672,142**	**-**	**24,821,843**
Additions to property, plant and equipment	**98,555,707**	**6,768,485**	**-**	**105,324,192**
Depreciation and amortization	**82,066,180**	**13,759,077**	**-**	**95,825,257**
Results for the year ended December 31, 2018				
Revenues	811,635,826	293,697,265	(271,719,235)	833,613,856
External revenues	811,635,826	21,978,030	-	833,613,856
Segment profit (loss) before zakat	102,211,667	(10,247,450)	10,252,631	102,216,848
Zakat	2,767,732	5,181	-	2,772,913
Financial costs	25,603,718	409,728	-	26,013,446
Additions to property, plant and equipment	57,017,625	4,762,800	-	61,780,425
Depreciation and amortization	76,784,893	10,012,920		86,797,813
As of December 31, 2019				
Total assets	**1,491,338,540**	**152,386,456**	**(66,914,242)**	**1,576,810,754**
Total liabilities	**759,960,325**	**97,119,324**	**(11,647,110)**	**845,432,539**
As of December 31, 2018				
Total assets	1,468,929,782	113,672,108	(76,915,401)	1,505,686,489
Total liabilities	717,616,718	59,767,370	(23,010,663)	754,373,425

The Group makes sales in local market and foreign markets in Middle East, Africa, Asia and Europe. Export external sales during the year ended December 31, 2019 amounted to Saudi Riyals 352.71 (2018: Saudi Riyals 359.16 million). Local external sales during the year ended December 31, 2019 amounted to Saudi Riyals 338.37 (2018: Saudi Riyals 474.45 million).

(Expressed in Saudi Riyals unless otherwise stated)

5. Property, plant and equipment

	Land	Buildings and mobile cabinets	Machinery and equipment	Furniture and office equipment	Motor vehicles	Capital work in progress	Total
At January 1, 2018							
Cost	97,870,400	179,449,401	1,379,805,776	28,181,711	43,015,391	31,796,433	1,760,119,112
Accumulated depreciation	-	(46,228,962)	(590,014,652)	(24,181,565)	(34,704,664)	-	(695,129,843)
Net book value	97,870,400	133,220,439	789,791,124	4,000,146	8,310,727	31,796,433	1,064,989,269
Year ended December 31, 2018							
Opening net book value	97,870,400	133,220,439	789,791,124	4,000,146	8,310,727	31,796,433	1,064,989,269
Additions	150,000	555,985	22,844,564	659,650	1,532,200	36,038,026	61,780,425
Transfers							
- Cost	-	391,756	14,817,242	15,550	880,000	(16,104,548)	-
Disposals							
- Cost	-	-	(781,466)	-	(907,975)	-	(1,689,441)
- Accumulated depreciation	-	-	206,661	-	816,408	-	1,023,069
Depreciation charge	-	(6,201,413)	(74,808,823)	(1,469,317)	(2,755,303)	-	(85,234,856)
Closing net book value	98,020,400	127,966,767	752,069,302	3,206,029	7,876,057	51,729,911	1,040,868,466
At December 31, 2018							
Cost	98,020,400	180,397,142	1,416,686,116	28,856,911	44,519,616	51,729,911	1,820,210,096
Accumulated depreciation	-	(52,430,375)	(664,616,814)	(25,650,882)	(36,643,559)	-	(779,341,630)
Net book value	98,020,400	127,966,767	752,069,302	3,206,029	7,876,057	51,729,911	1,040,868,466

(Expressed in Saudi Riyals unless otherwise stated)

5. **Property, plant and equipment** (continued)

	Land	Buildings and mobile cabinets	Machinery and equipment	Furniture and office equipment	Motor vehicles	Capital work in progress	Total
Year ended December 31, 2019							
Opening net book value	98,020,400	127,966,767	752,069,302	3,206,029	7,876,057	51,729,911	**1,040,868,466**
Additions	-	742,703	26,521,077	1,711,851	3,335,212	73,013,349	**105,324,192**
Transfers							
- Cost	-	-	17,934,516	-	-	(17,934,516)	**-**
Disposals							
- Cost	-	-	(6,655,727)	-	(126,050)	-	**(6,781,777)**
- Accumulated depreciation	-	-	6,198,566	-	54,622	-	**6,253,188**
Write off							
- Cost	-	(402,100)	(1,270,840)	-	(190,500)	-	**(1,863,440)**
- Accumulated depreciation	-	38,200	120,729	-	174,892	-	**333,821**
Depreciation charge	-	(5,839,738)	(77,530,349)	(1,351,198)	(2,528,721)	-	**(87,250,006)**
Closing net book value	**98,020,400**	**122,505,832**	**717,387,274**	**3,566,682**	**8,595,512**	**106,808,744**	**1,056,884,444**
At December 31, 2019							
Cost	98,020,400	180,737,745	1,453,215,142	30,568,762	47,538,278	106,808,744	**1,916,889,071**
Accumulated depreciation	-	(58,231,913)	(735,827,868)	(27,002,080)	(38,942,766)	-	**(860,004,627)**
Net book value	**98,020,400**	**122,505,832**	**717,387,274**	**3,566,682**	**8,595,512**	**106,808,744**	**1,056,884,444**

During 2019, finance costs of Saudi Riyals 2.5 million is capitalized as part of property, plant and equipment (2018: Saudi Riyals 1.3 million).

Capital work-in-progress at December 31, 2019 includes costs incurred related to the ongoing projects for plant and machinery. The projects are expected to complete during 2020. See also Note 33 for capital commitments.

All land, buildings and mobile cabinets, machinery and equipment and furniture and office equipment relating to the Company are pledged as collateral to Saudi Industrial Development Fund (SIDF) as a first degree pledge (see Note 19).

(Expressed in Saudi Riyals unless otherwise stated)

6. Right of use assets

	Leased land	Buildings	Total
At January 1, 2019			
Cost (Note 2)	47,168,541	3,307,027	50,475,568
Accumulated depreciation	-	-	-
Net book value	47,168,541	3,307,027	50,475,568
Year ended December 31, 2019			
Opening net book value	47,168,541	3,307,027	50,475,568
Re-measurement	-	(150,000)	(150,000)
Depreciation charge	(5,320,806)	(1,691,761)	(7,012,567)
Closing net book value	**41,847,735**	**1,465,266**	**43,313,001**
At December 31, 2019			
Cost (Note 2)	47,168,541	3,157,027	50,325,568
Accumulated depreciation	(5,320,806)	(1,691,761)	(7,012,567)
Net book value	**41,847,735**	**1,465,266**	**43,313,001**

7. Intangible asset

Computer software and ERP

At January 1, 2018	
Cost	7,813,426
Accumulated amortization	(2,669,648)
Net book value	5,143,778
Year ended December 31, 2018	
Opening net book value	5,143,778
Amortization	(1,562,957)
Closing net book value	3,580,821
At December 31, 2018	
Cost	7,813,426
Accumulated amortization	(4,232,605)
Net book value	3,580,821
Year ended December 31, 2019	
Opening net book value	3,580,821
Amortization	(1,562,684)
Closing net book value	2,018,137
At December 31, 2019	
Cost	**7,813,426**
Accumulated amortization	**(5,795,289)**
Net book value	**2,018,137**

8. Derivative financial instruments

	2019	2018
Interest rate swaps – (Negative)/positive fair value	**(240,041)**	2,064,063
Less: Current portion interest rate swaps – Negative fair value	**(15,416)**	-
Non-current interest rate swaps – (Negative)/positive fair value	**(224,625)**	2,064,063

(Expressed in Saudi Riyals unless otherwise stated)

8. Derivative financial instruments (continued)

The Company entered into interest rate swap (IRS) agreements with commercial banks to convert floating rate interest to fixed rate interest arrangement. The total contracts' amount is Saudi Riyals 300 million (2018: Saudi Riyal 300 million) out of which the outstanding value is Saudi Riyals 140 million at December 31, 2019 (2018: Saudi Riyals 180 million).

9. Inventories

	2019	2018
Raw materials	**75,305,340**	69,502,782
Finished goods	**64,184,390**	82,374,970
Goods in transit	**9,900,292**	5,885,777
Work-in-progress	**2,384,602**	2,281,262
Consumable spare parts, held not for sale	**59,638,231**	57,297,579
	211,412,855	217,342,370
Less: Allowance for slow moving inventories	**(3,338,208)**	(3,409,175)
	208,074,647	213,933,195

Movement in allowance for slow moving inventories is as follows:

	2019	2018
January 1	**3,409,175**	1,315,387
Additions	**3,600,000**	3,067,797
Write-offs	**(3,670,967)**	(974,009)
December 31	**3,338,208**	3,409,175

During the year Saudi Riyals 3.6 million (2018: Saudi Riyals 3.0 million) were recognized as an expense under cost of sales.

10. Trade receivables

	2019	2018
Trade receivables - gross	**166,622,529**	163,613,838
Allowance for impairment	**(6,740,659)**	(6,736,472)
	159,881,870	156,877,366

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

	2019	2018
January 1	**6,736,472**	5,341,980
Additions	**4,187**	1,394,492
December 31	**6,740,659**	6,736,472

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

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

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

(Expressed in Saudi Riyals unless otherwise stated)

10. Trade receivables (Continued)

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

The Group has applied IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables based on a provision matrix. The provision matrix takes into account historical credit loss experience and is adjusted for average historical recovery rates. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and is based on the ageing of the days the receivables are past due and the rates as calculated in the provision matrix. On that basis, the loss allowance as at December 31, 2019 and 2018 was determined as follows:

Ageing	**Gross carrying amount**	**Expected Credit loss range (%)**	**Loss allowance**
As at December 31, 2019:			
Within the credit period	115,305,037	0.33% - 9.38%	**399,874**
1-90 days past due	28,968,888	1.35% - 8.69%	**462,712**
91-180 days past due	11,073,964	6.73% - 19.76%	**771,789**
181- 270 days past due	2,781,594	9.90% - 25.61%	**532,256**
271- 360 days past due	2,248,257	10.60% - 82.93%	**1,112,308**
More than 1 year past due	6,244,789	15.91% - 90.00%	**3,461,720**
Total	166,622,529		**6,740,659**

Ageing	**Gross carrying amount**	**Expected Credit loss range (%)**	**Loss allowance**
As at December 31, 2018:			
Within the credit period	93,814,820	0.28% - 0.36%	341,791
1-90 days past due	42,388,725	0.28% - 10.76%	517,772
91-180 days past due	14,097,190	0.35% - 13.40%	1,467,461
181- 270 days past due	2,544,222	0.50% - 24.25%	307,471
271- 360 days past due	2,558,282	0.50% - 96.87%	912,363
More than 1 year past due	8,210,599	9% - 97.00%	3,189,614
Total	163,613,838		6,736,472

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

11. Prepayments and other receivables

	2019	**2018**
Prepaid expenses	**11,635,397**	9,725,764
Net Value Added Tax (VAT) receivables	**1,857,540**	2,748,069
Deposits with suppliers	**508,997**	533,998
Others	**1,925,984**	2,039,108
	15,927,918	15,046,939

(Expressed in Saudi Riyals unless otherwise stated)

12. Other current assets

	Note	2019	2018
Advances to suppliers		**48,394,695**	28,459,059
Receivable from Higher Institute for Paper and Industrial Technology (HIPIT)	(a)	**14,234,712**	9,727,398
Advances to employees		**6,328,619**	5,762,380
		68,958,026	43,948,837
Less: provision for impairment allowance		**(1,500,206)**	-
		67,457,820	43,948,837

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

13. Financial asset at fair value through profit or loss

During 2017, the Company acquired the units of an unlisted open-ended mutual fund. As at December 31, 2019, the fair value of the investment is Saudi Riyals 39,434 (2018: Saudi Riyals 524,256).

Fair value gains of Saudi Riyals 15,178 (2018: Saudi Riyals 11,953) have been recognized in profit or loss.

During 2019, the group invested in equity shares of listed companies amounting Saudi Riyals 24,065,394 and sold before year end. Group has recognised gains on sales of these equity shares amounting Saudi Riyals 3,250,266 in profit or loss during the year 2019.

14. Cash and cash equivalents

	2019	2018
Cash in hand	**3,154,859**	4,502,278
Cash at bank	**20,058,624**	24,340,268
	23,213,483	28,842,546

15. Share capital

At 31 December 2019, the Company's issued share capital of Saudi Riyals 500 million (2018: Saudi Riyals 500 million) consists of 50 million (2018: 50 million) fully paid shares of Saudi Riyals 10 each.

	2019	2018
In issue at the beginning of the reporting period	**50,000,000**	50,000,000
Issued for cash	**-**	-
In issue at the end of the reporting period	**50,000,000**	50,000,000
Authorized – Par value Saudi Riyals 10	**50,000,000**	50,000,000

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

16. Statutory reserve

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

(Expressed in Saudi Riyals unless otherwise stated)

17. Treasury shares

Treasury shares are shares purchased by the Company for the purpose of issuing shares under the proposed ESOP for which required approvals were still in progress as of December 31, 2019. The Company purchased 300,000 shares at prevailing market rates at the time of purchase.

18. Retained earnings

Other comprehensive loss accumulated in retained earnings:

	2019	2018
Actuarial losses on re-measurements of defined benefits liability	**8,152,518**	7,089,697

19. Long-term borrowings

	2019	2018
Saudi Industrial Development Fund (SIDF)	**72,251,125**	106,379,698
Islamic banking facilities (Tawarruq)	**412,284,210**	382,334,159
Long-term borrowings	**484,535,335**	488,713,857
Less: Current portion shown under current liabilities	**(141,617,251)**	(128,352,211)
Long term borrowings shown under non-current liabilities	**342,918,084**	360,361,646

Reconciliation of cash movement of borrowings	2019	2018
Balance at beginning of year	**488,713,857**	482,688,292
Disbursements	**205,000,000**	162,000,000
Repayment of principal instalments	**(209,095,715)**	(160,218,750)
Movement in accrued financial charges	**(1,057,604)**	1,758,388
Movement in deferred financial charges	**974,797**	2,485,927
Balance at end of year	**484,535,335**	488,713,857

(a) The Company signed a loan agreement with SIDF amounting to Saudi Riyals 255 million in 2012 to partially finance the construction of manufacturing lines within the Company's production facility. The loan was fully repaid during 2018.

During the year 2013, the Company signed another loan agreement with SIDF amounting to Saudi Riyals 124.7 million to finance the construction of manufacturing facilities. This loan was also fully utilized as of December 31, 2017. The loan is repayable in unequal semi-annual instalments up to March 2022.

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

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

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

19. Long-term borrowings (Continued)

The above loans and facilities include certain covenants which require the Company to maintain certain levels of current and leverage ratios and certain restriction on dividend distribution and also notify the bank any breach or probable breach immediately. The Company was not in compliance related to Debt Service Coverage Ratio at December 31, 2019 and has taken waiver letters in this regard from the respective banks, before end of the financial year.

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

	2019	2018
Long term borrowings		
Saudi Riyals	**463,202,058**	452,989,475
US Dollars	**21,333,277**	35,724,382
Total	**484,535,335**	488,713,857

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

2019 **Year ending December 31:**	**Loan's principal**	**Deferred financial charges**	**Accrued financial charges**	**Net loan amount**
2020	140,678,856	(414,582)	1,352,977	**141,617,251**
2021	153,660,285	(82,258)	-	**153,578,027**
2022	120,714,287	(74,949)	-	**120,639,338**
2023	62,500,000	(49,281)	-	**62,450,719**
2024	6,250,000	-	-	**6,250,000**
	483,803,428	(621,070)	1,352,977	**484,535,335**

2018 **Year ending December 31:**	**Loan's principal**	**Deferred financial charges**	**Accrued financial charges**	**Net loan amount**
2019	127,190,761	(1,249,131)	2,410,581	**128,352,211**
2020	140,440,761	(339,427)	-	**140,101,334**
2021	122,171,903	(7,309)	-	**122,164,594**
2022	67,083,334	-	-	**67,083,334**
2023	31,012,384	-	-	**31,012,384**
	487,899,143	(1,595,867)	2,410,581	**488,713,857**

20. Lease liabilities

Movement in lease liabilities is summarized as follows:

At January 1, 2019 (Note 2)	**49,981,515**
Payments made	**(7,185,700)**
Remeasurement	**(150,000)**
Interest charged	**707,275**
At December 31, 2019	**43,353,090**

The scheduled maturities of the lease liabilities as of period ended December 31, 2019 are as follows:

	Principal amount	**Interest**	**Net lease liabilities**
Current portion	**7,146,049**	**(1,689,853)**	**5,456,196**
Non-current portion	**45,402,226**	**(7,505,332)**	**37,896,894**
	52,548,275	**(9,195,185)**	**43,353,090**

(Expressed in Saudi Riyals unless otherwise stated)

21. Employees' end of service benefits

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

	2019	2018
At beginning of year	**39,912,063**	35,330,773
Current year charge:		
- Current service cost	**4,951,288**	4,457,050
- Interest cost	**1,544,647**	1,173,886
	6,495,935	5,630,936
Re-measurement losses:		
- Financial assumptions	**(333,053)**	99,206
- Demographic assumptions	**-**	(1,162,073)
- Experience adjustment	**1,395,874**	2,257,116
	1,062,821	1,194,249
Payments	**(3,538,108)**	(2,243,895)
At end of year	**43,932,711**	39,912,063

Actuarial assumptions

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

	2019	**2018**
Discount rate	**2.30% to 2.45%**	4.00 % to 4.20 %
Future salary growth	**2.90% to 3.20%**	4.60 % to 4.95 %
Mortality rate	**0.25%**	0.11 % to 0.25%

Sensitivity analysis

	31 December 2019		**31 December 2018**	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	**(2,833,254)**	**2,425,469**	(1,602,354)	1,727,826
Future salary growth (1% movement)	**2,602,204**	**(3,040,942)**	1,882,199	(1,776,454)
Future mortality (1 year change in mortality age)	**376,086**	**(357,244)**	6,974	(6,921)

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

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

	2019	**2018**
Less than a year	**8,547,278**	7,026,753
Between 1 – 5 years	**15,661,607**	20,219,512
Over 5 years	**26,608,221**	20,623,480

22. Zakat

22.1 Components of zakat base

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

22.2 Provision for zakat

	2019	2018
At the beginning of the year	**4,020,197**	3,006,659
Provisions		
- Provision for current year	**1,437,193**	4,020,197
- Adjustment related to prior years	**(527,404)**	(1,247,284)
Payments	**(3,492,793)**	(1,759,375)
At the end of the year	**1,437,193**	4,020,197

22.3 Status of final assessments

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

During 2016, the Company received additional zakat assessments amounting Saudi Riyals 16.54 million for the years 2009 to 2012. The Company has settled an amount of Saudi Riyals 0.04 million on the non-objected items and submitted an objection against the remaining balance amount. During 2019, the GAZT has issued a revised assessment reducing the additional assessment amount to Saudi Riyals 6.83 million. The Company has settled Saudi Riyals 1.2 million and submitted the objection against the remaining revised assessment. Management believes that the ultimate outcome of this matter will not result in any material additional liability to the Company. The zakat declarations of the Company for the years 2013 to 2018 are filed with the GAZT and unrestricted zakat certificates have been obtained.

The zakat declarations of WASCO and SACO for the years 2009 to 2018 are currently under review by the GAZT.

23. Short-term borrowings

	2019	2018
Islamic banking facilities (Tawarruq)	**164,119,650**	126,499,317
Notes payable	**6,557,138**	1,178,895
Accrued financial charges	**1,024,069**	622,819
	171,700,857	128,301,031

The Group has short-term credit facilities from commercial banks comprising of short-term loans, letters of credit and guarantees. These borrowings bear financing charges at the prevailing market rates. These facilities include certain financial covenants which require the Group to maintain certain levels of ratios. The Group is in compliance with these debt covenants at December 31, 2019. The loans are denominated in Saudi Riyals, US Dollars and Euro as follows:

	2019	2018
Short-term borrowings		
Saudi Riyals	**154,445,093**	120,800,221
US Dollars	**214,245**	7,500,810
Euro	**17,041,519**	-
Total	**171,700,857**	128,301,031

(Expressed in Saudi Riyals unless otherwise stated)

24. Trade and other payables

	2019	2018
Trade payables - third parties	**67,947,235**	62,983,468
Employees related accruals	**17,686,374**	19,679,301
Accrued transportation expenses	**6,356,975**	2,992,154
Accrued sales services expenses	**1,101,451**	1,939,651
Accrued rent expense	-	325,762
Accrued legal and consultancy fees	**485,859**	212,072
Accrued directors' remuneration	**7,000**	258,583
Others	**3,789,648**	1,706,957
	97,374,542	90,097,948

25. Other current liabilities

	2019	2018
Advances from customers	**2,858,770**	2,984,484
Deferred rent payables	-	343,845
	2,858,770	3,328,329

26. Cost of revenue

	2019	2018
Material and employees cost	**383,742,447**	431,996,647
Depreciation and maintenance cost	**127,233,391**	112,976,370
Transportation cost	**12,278,952**	14,604,181
Rent	**1,276,413**	11,246,001
Other overheads	**24,836,421**	27,116,315
	549,367,624	597,939,514

27. Selling and distribution expenses

	2019	2018
Transportation and shipping	**40,069,129**	32,705,899
Salaries and related benefits	**6,106,575**	5,013,787
Sales commission	**2,641,465**	2,100,840
Credit insurance	**320,582**	260,506
Depreciation and amortization	**249,440**	197,715
Others	**3,910,543**	3,828,685
	53,297,734	44,107,432

28. General and administrative expenses

	Note	2019	2018
Salaries and related benefits		**38,367,336**	42,931,614
Training		**40,436**	3,220,073
Depreciation and amortization		**2,449,705**	2,605,720
Directors' remuneration	34	**2,521,267**	2,391,196
Bank charges		**1,844,815**	1,869,313
Consultation fee		**4,103,930**	1,316,442
Government fee		**1,538,506**	1,296,791
Insurance expenses		**822,372**	945,210
Travel expenses		**980,763**	707,733
Professional fee		**954,558**	549,760
Communication		**753,373**	467,742
Repairs and maintenance		**417,808**	430,758
Others		**3,993,797**	2,981,908
		58,788,666	61,714,260

(Expressed in Saudi Riyals unless otherwise stated)

29. Other operating income/(expenses) – net

	2019	2018
Foreign currency exchange loss	**(680,992)**	(1,663,841)
Gain / (loss) on disposal of property and equipment	**390,125**	(526,421)
Gain on sale of investment at fair value through profit or loss	**3,250,266**	-
Scrap sales	**608,571**	674,579
Others	**976,456**	580,994
	4,544,426	(934,689)

30. Finance costs

	Note	2019	2018
Finance costs on long-term borrowings:	19		
- Tawarruq		**16,020,068**	13,074,979
- SIDF charges		**1,844,020**	2,732,002
- Amortisation of deferred financial charges		**974,797**	2,485,927
- Lease liabilities	20	**707,275**	-
- Interest rate swap settlements		**(772,976)**	(6,738)
Finance costs on short-term borrowings:	23		
- Tawarruq		**6,048,659**	7,727,276
		24,821,843	26,013,446

31. Earnings per share

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

	2019	2018
Net profit for the year	**6,127,972**	99,443,935
Weighted average number of shares	**49,700,000**	49,817,130
Basic and diluted earnings per share	**0.12**	2.00

32. Financial instruments

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

32.1 Financial instruments by category

(a) Financial assets subsequently measured at amortised cost:

	Note	2019	2018
Trade receivables	10	**159,881,870**	156,877,366
Other current assets (Advances to employees and receivable from HIPIT)	12	**19,903,331**	15,489,778
Cash and cash equivalents	14	**23,213,483**	28,842,546
		202,998,684	201,209,690

(Expressed in Saudi Riyals unless otherwise stated)

32. Financial instruments (Continued)

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

	Note	2019	2018
Derivative financial instrument – interest rate swaps	8	-	2,064,063
Investments at fair value through profit or loss	13	**39,434**	524,256
		39,434	2,588,319

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

	Note	2019	2018
Derivative financial instrument – interest rate swaps	8	**240,041**	-

(d) Financial liabilities at amortised cost:

	Note	2019	2018
Borrowings	19, 23	**656,236,192**	617,014,888
Trade and other payables	24	**97,374,542**	90,097,948
Lease liabilities	20	**43,353,090**	-
		796,963,824	707,112,836

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

32.2 Fair value of assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

The fair value of investment at fair value through profit or loss is based on the net assets value (NAV) communicated by the fund manager. The fair values under Level 2 were as follows:

	2019	2018
Level 2		
Derivative financial instruments – (Negative)/positive value	**(240,041)**	2,064,063
Investments at fair value through profit or loss	**39,434**	524,256

During the year ended December 31, 2019, there were no movements between the levels.

(Expressed in Saudi Riyals unless otherwise stated)

33. Commitments and contingencies

i. At December 31, 2019, the Group had outstanding letters of credit of Saudi Riyals 2.77 million (2018: Saudi Riyals 11.51 million) and letters of guarantee of Saudi Riyals 2.71 million (2018: Saudi Riyals 1.62 million) that were issued in the normal course of the business.
ii. The capital expenditure contracted by the Group but not incurred till December 31, 2019 was approximately Saudi Riyals 33.8 (2018: Saudi Riyals 45.1 million).

34. Related parties' matters

34.1 Transactions with key management personnel

Key management personnel compensation comprised the following:

	2019	2018
Short term benefits	**10,682,129**	12,084,511
Post-employment benefits	**279,268**	280,321
Termination benefits	**611,097**	571,583
	11,572,494	12,936,415

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

34.2 Related parties' transactions

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

Related party	Description of transaction	Relationship	2019	2018
MASDAR Building Materials	Purchase of materials / services	Subsidiary of a significant shareholder	-	15,330
Directors	Directors remuneration	Directors	**2,521,267**	2,391,196

34.3 Related parties' balances

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

Related party	2019	2018
Accrued directors' remuneration	**7,000**	258,583
Advances to key management personnel	**626,515**	1,194,089

35. Dividends

During March 2019, the Company has distributed a dividend based on General Assembly authorization to the Board of Directors for the second half of the financial year ended December 31, 2018 of Saudi Riyals 0.50 per share (2018: Saudi Riyals 0.75 per share and interim dividend Saudi Riyals 0.50 per share) aggregating to Saudi Riyals 25 million (2018: Saudi Riyals 37.5 million and Saudi Riyals 25 million respectively). The dividend was paid in March 2019.

(Expressed in Saudi Riyals unless otherwise stated)

36. Financial risk management

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

36.1 Market risk

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

36.2 Interest rate risk

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

At December 31, 2019, if interest rates had been 1% higher/lower with all other variables held constant, future interest on outstanding loans (excluding loans hedged through interest rates swaps arrangements) will increase/decrease by Saudi Riyals 4,236,083 (2018: Saudi Riyals 3,278,985).

36.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars during the year and accordingly the Group has no significant exposure to other foreign currencies at the year ended December 31, 2019 and 2018. Since Saudi Riyal is pegged to the US Dollar, the Group is not exposed to significant foreign currency risk. Exposure to Euro at the end of 2019 and 2018 was not significant.

36.4 Credit risk

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

The management continuously monitors the credit exposure towards the customers and makes allowances against those balances considered doubtful of recovery using the expected credit loss model. To mitigate the risk, the Group has developed a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history. Outstanding customer receivables are regularly monitored. Most of the customers are secured, where possible, by way of inland letters of credit, cash security deposit, bank guarantees and insurance guarantees. As at December 31, 2019, the Group has assigned credit insured trade receivables of Saudi Riyals Nil (2018: Saudi Riyals 31.82 million) to a commercial bank as the Group transferred all risks and rewards related to those receivable balances.

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

	2019	**2018**
Financial assets		
Trade receivables	**159,881,870**	156,877,366
Other current assets (*)	**19,903,331**	15,489,778
Cash at bank	**20,058,624**	24,340,268
Short-term investments	**39,434**	524,256
Derivative financial instrument – interest rate swaps	**-**	2,064,063
	199,883,259	199,295,731

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

(Expressed in Saudi Riyals unless otherwise stated)

36. Financial risk management (Continued)

36.4 Credit risk (Continued)

Trade receivables are due from customers who have been assessed for credit worthiness prior to entering into transactions with them. Cash at bank and short-term investments are placed with reputable local banks. There were no past due or impaired receivables from related parties.

36.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. The Group has no significant concentration of liquidity risk. For instance, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowings or reliance on a particular market in which to realize liquid assets. The following is contractual undiscounted maturity analysis of the financial liabilities of the Group as at December 31, 2019. The Group does not hold financial assets for managing liquidity risk. Hence, these risks have not been considered for maturity analysis.

31 December 2019	**1 year or less**	**Above 1 year to 5 years**	**More than 5 years**	**Total**
Non derivative financial liabilities				
Borrowings	329,424,990	358,929,718	-	**688,354,708**
Trade and other payables	97,374,542	-	-	**97,374,542**
Lease liabilities	7,146,049	25,272,688	20,129,539	**52,548,275**
	433,945,581	384,202,406	20,129,539	**838,277,525**

31 December 2018	**1 year or less**	**Above 1 year to 5 years**	**More than 5 years**	**Total**
Non derivative financial liabilities				
Borrowings	278,395,419	386,830,661	-	**665,226,080**
Trade and other payables	90,097,948	-	-	**90,097,948**
	368,493,367	386,830,661	-	**755,324,028**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

36.6 Novel coronavirus (Covid-19)

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity in general. The Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, management does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company's results.

(Expressed in Saudi Riyals unless otherwise stated)

37. Capital management

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

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

The capital gearing ratio is as follows:

	2019	**2018**
Borrowings	**656,236,192**	617,014,888
Trade and other payables	**97,374,542**	90,097,948
Other current liabilities	**2,858,770**	3,328,329
Total debt	**756,469,504**	710,441,165
Cash and cash equivalents	**23,213,483**	28,842,546
Net debt	**733,256,021**	681,598,619
Share capital	**500,000,000**	500,000,000
Statutory reserve	**84,220,419**	83,607,622
Treasury shares	**(6,816,812)**	(6,816,812)
Retained earnings	**153,974,608**	174,522,254
Net equity	**731,378,215**	751,313,064
Capital gearing ratio - %	**0.997**	1.102

38. Date of authorization for issue

These consolidated financial statements were authorized for issue by the Company’s Board of Directors on March 17, 2020.