MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

Crowe

Al Azem, Al Sudairy, Al Shaikh & Partners

CPA's & Consultants - Member Crowe Global

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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FOR THE YEAR ENDED DECEMBER 31, 2019
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Crowe

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INDEPENDENT AUDITOR'S REPORT

TO: THE SHAREHOLDERS
MIDDLE EAST SPECIALIZED CABLES COMPANY
(A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of **Middle East Specialized Cables Company (the "Company") and its subsidiary (collectively the "Group"),** which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 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 Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") 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 are independent of the Group in accordance with the professional code of conduct and ethics that are 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note (12) of the consolidated financial statements which describes that the Board of Directors decided on August 5, 2018 to recommend to the extra ordinary General Assembly to reduce the Company's capital from SR 600 million to SR 400 million, therefore reducing the number of Company's shares from 60 million shares to 40 million shares by cancelling 20 million shares. A reduction of SR 200 million to amortized the accumulated losses. On November 4, 2018 the extra ordinary General Assembly approved Board of Directors' recommendation related to reduction of Company's capital. Our opinion is not modified in respect of this matter.

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INDEPENDENT AUDITOR'S REPORT ***(Continued)***
MIDDLE EAST SPECIALIZED CABLES COMPANY
(A Saudi Joint Stock Company)

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 year. These matters were 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 these matters.

<table>
<tr><th colspan="2">Revenue recogintion</th></tr>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Group recognized revenue of SAR 468 million for the year ended 31 December 2019 (2018: SAR 592 million).

The Group is engaged in the production and sale of flexible electric, coaxial, rubber and nylon coated wires and cables, telephone cables for internal extensions, computer cables, safety and anti-fire wires and cables and control and transmission of information cables.

The Group recognizes revenue through five steps, as mentioned in IFRS (15) "Revenue from contracts with customers" and these steps require using judgement from the management.

We considered this as a key audit matter due to judgment involved in estimating the performance obligation and the existence of variable consideration, represent mainly the timing and amount of revenue recognized in a financial period can have material effect on the Group's financial performance.</td><td>Our procedures included the following:

• Considering the appropriateness of revenue recognition as per the Group's policies and assessing compliance with IFRS (15) "Revenue from contracts with customers".
• Testing the design and effectiveness of internal controls implemented by the Group through the revenue cycle.
• Testing sample of sales transactions taking place at either side of the consolidated statement of financial position date to assess whether the revenue was recognized in the correct period.
• Performing analytical review on revenue based on trends of monthly sales and profit margins.

We assessed the adequacy of the Group's disclosures included in the consolidated financial statements.</td></tr>
<tr><td colspan="2">Refer to note (5.4) for the accounting policy.</td></tr>
</table>

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INDEPENDENT AUDITOR'S REPORT ***(Continued)***
MIDDLE EAST SPECIALIZED CABLES COMPANY
(A Saudi Joint Stock Company)

Key Audit Matters ***(Continued)***

Impairment loss on trade receivables	
Key audit matter	**How the matter was addressed in our audit**
The gross balance of trade receivables as at 31 December 2019 amounted to SR 361 million (2018: SR 427 million), against which an allowance for impairment of SR 54 million (2018: SR 54 million) was made. The collectability of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis. Management determines and recognizes expected credit losses ('ECL') as required by IFRS 9 "Financial Instruments". Significant judgments, estimates and assumptions have been made by the management in calculation of ECL impact. We considered this as a key audit matter due to the significance of the impact on the Group's trade receivables, the complexity and judgments related particularly to calculation of expected credit losses.	Our procedures included the following: • Evaluated the Group's processes and controls relating to the monitoring of trade receivables and review of credit risks of customers. • Assessed the appropriateness of significant judgements, estimates and assumptions made by the management. • Checked information Technology General Controls (ITGCs) on the accounting system and found effective. We performed test of one for testing of accuracy of ageing of trade receivables generated by the system. • Assessed methodologies implemented by the Group with reference to the calculation of ECL. Particulary, we assessed the Group's approach regarding assessment of probability of default and incorporation of forward-looking information in the calculation of expected credit losses, as well as the changes of in loss given default parameter. We assessed the adequacy of the Group's disclosures included in the consolidated financial statements.
Refer to note (5.5) for the accounting policy and note (9) for related disclosures.	

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Key Audit Matters ***(Continued)***

Valuation of inventory	
Key audit matter	**How the matter was addressed in our audit**
As at 31 December 2019, the Group's inventories balance was SR 133 million (2018: SR 129 million) net of allowance for slow moving inventories of SR 39 million (2018: SR 33 million). Inventories are stated at the lower of cost and net realizable value. The Managemnent reassess allowance for slow moving inventories in consediration of the nature and useful life of inventory to writte of the inventory cost override the amount of realizable value. We considered valuation of inventories as a key audit matter due to the significant management judgment involved in determining the allowance for slow moving inventories and the level of inventories write down required based on net realizable value assessment.	We performed the following procedures in relation to valuation of inventory: • Considering the appropriateness of allowance for slow moving inventories as per the Group policies and assessing compliance with applicable accounting standards; • Testing the design and effectiveness of internal controls implemented by the Group through the inventory cycle; • Testing the net realizable value of finished goods inventories by considering actual sales post at yearend and the assumptions used by the management to check whether inventories are valued at the lower of cost and net realizable value. We assessed the adequacy of the Group's disclosures included in the consolidated financial statements.
Refer to note (5.14) for the accounting policy and note (10) for related disclosures.	

Key Audit Matters *(Continued)*

Implementation of IFRS 16 "Leases"	
Key audit matter	**How the matter was addressed in our audit**
The Group has adopted IFRS 16 "Leases" with effect from 1 January 2019 and this new standard supersedes the requirements of IAS 17 "Leases". Management performed a detailed analysis of each leases contract to identify difference between the requirements of the two standards identify the changes required to be made to existing accounting policies, and determine the transition adjustments and consequential changes to processes and control required particularly in connection with identification of whether an arrangement meets the definition of a lease. IFRS 16 principally modifies the accounting treatment of operating leases at inception, with the recognition of a right of use assets and a corresponding liability for the discounted amount of lease payments over the term of lease contract. The Group has chosen to apply IFRS 16 "Leases" under the modified retrospective approach of the initial implementation on 1 January 2019. Accordingly, this resulted in recognition of right of use assets amounted to SAR 11.018 million as at 1 January 2019 and lease liabilities of SAR 10.482 million as of that date. Management also assessed the disclosure requirements of the new standard to be made in the consolidated financial statements. We considered this as a key audit matter because the calculations of amount underlying the right of use assets and the corresponding lease liabilities involve new processes for collecting data, complex rules and the application of significant management judgement relating to the terms contracts.	Our procedures included the following: • Reviewed management's assessment of the impact of IFRS 16 in terms of the classification and measurements of it right of use assets and leases liabilities, and understood the approach taken towards implementation; • Assessed the accuracy of the lease data by testing, on a sample basis, the lease data captured by management through the 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 the terms of the lease contract. We also tested the arithmetical accuracy of those individual lease schedules and how these accumulated into the overall adjustment totals applied in the consolidated financial statement as 1 January 2019; and • Assessed the appropriateness of the discount rates used in computation of lease liabilities obligations. We also reviewed the adequacy of the Group's disclosures included in the consolidated financial statements.
Refer to note (5.1.1) for the accounting policy and note (8) for related disclosures.	

Other Information

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

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

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

When we read the annual report and 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 the International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Regulations for Companies and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of 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 ISAs 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 ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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INDEPENDENT AUDITOR'S REPORT ***(Continued)***
MIDDLE EAST SPECIALIZED CABLES COMPANY
(A Saudi Joint Stock Company)

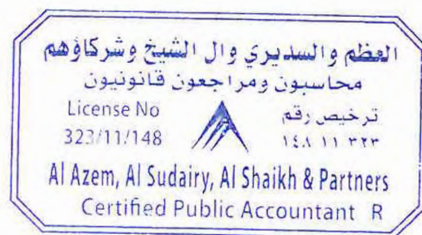
Auditor's Responsibilities for the Audit of the Consolidated Financial Statements ***(Continued)***

- 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.

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 year 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.



AlAzem, AlSudairy, AlShaikh & Partners
Certified Public Accountants

Salman B. AlSudairy
License No, 283

29 Rajab 1441H (March 24, 2020)
Riyadh, Kingdom of Saudi Arabia

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

	Note	**December 31, 2019 SR**	December 31, 2018 SR
ASSETS			
Non-current assets			
Property, plant and equipment	6	**175,858,624**	195,220,572
Intangible assets	7	**3,499,313**	2,448,625
Right of use assets	8	**10,203,340**	-
Non-current accounts receivable	9	**33,001,262**	36,980,043
Total non-current assets		**222,562,539**	234,649,240
Current assets			
Inventories	10	**132,986,461**	128,983,208
Accounts receivable	9	**304,406,022**	368,447,172
Cash and cash equivalents	11	**14,318,473**	15,684,038
Total current assets		**451,710,956**	513,114,418
TOTAL ASSETS		**674,273,495**	747,763,658
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**400,000,000**	400,000,000
Statutory reserve	13	**28,985,180**	28,985,180
Accumulated losses		**(69,443,933)**	(44,111,743)
Total equity		**359,541,247**	384,873,437
Liabilities			
Non-current liabilities			
Long-term loans	14.1	**94,088,798**	39,088,798
Lease liability - non current portion	8	**8,814,875**	-
Employees' end of service benefits	15	**19,108,400**	17,802,472
Total non-current liabilities		**122,012,073**	56,891,270
Current liabilities			
Current portion of long-term loans	14.1	**6,537,999**	6,517,111
Short-term loans	14.2	**6,660,318**	76,751,478
Accounts payable	16	**163,375,820**	206,492,353
Lease liability – current portion	8	**1,111,205**	-
Zakat provision	18	**14,993,646**	16,196,822
Dividends payable		**41,187**	41,187
Total current liabilities		**192,720,175**	305,998,951
Total liabilities		**314,732,248**	362,890,221
TOTAL EQUITY AND LIABILITIES		**674,273,495**	747,763,658

The accompanying notes from (1) to (29) form an integral part of these consolidated financial statements

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	**December 31, 2019 SR**	December 31, 2018 SR
Sales		**468,183,087**	591,857,056
Cost of sales		**(414,801,730)**	(543,722,638)
Gross profit		**53,381,357**	48,134,418
Selling and marketing expenses	19	**(20,935,481)**	(63,482,698)
General and administrative expenses	20	**(41,164,560)**	(47,626,978)
Other expenses		**(24,535)**	-
Operating loss		**(8,743,219)**	(62,975,258)
Finance cost	21	**(6,388,971)**	(6,937,146)
Net loss before zakat		**(15,132,190)**	(69,912,404)
Zakat	18	**(9,450,000)**	(10,200,000)
Net loss for the year		**(24,582,190)**	(80,112,404)
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurement (loss) gain of employees' end of service benefits		**(750,000)**	1,666,000
Other comprehensive (loss) income for the year		**(750,000)**	1,666,000
Total comprehensive loss for the year		**(25,332,190)**	(78,446,404)
(Loss) per share	23		
Basic and diluted loss for the period attributable to ordinary equity holders		**(0.61)**	(2.00)

The accompanying notes from (1) to (29) form an integral part of these consolidated financial statements

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

	Share capital SR	Statutory reserve SR	Accumulated losses SR	Total equity SR
Balance at January 1, 2018	600,000,000	28,985,180	(163,697,048)	465,288,132
Impact of adoption of IFRS 9	-	-	(1,968,291)	(1,968,291)
Loss for the year	-	-	(80,112,404)	(80,112,404)
Other comprehensive income for the year	-	-	1,666,000	1,666,000
Total comprehensive loss for the year	-	-	(78,446,404)	(78,446,404)
Capital reduction (note 12)	(200,000,000)	-	200,000,000	-
Balance at December 31, 2018	**400,000,000**	**28,985,180**	**(44,111,743)**	**384,873,437**
Loss for the year	-	-	**(24,582,190)**	**(24,582,190)**
Other comprehensive loss for the year	-	-	**(750,000)**	**(750,000)**
Total comprehensive loss for the year	-	-	**(25,332,190)**	**(25,332,190)**
Balance at December 31, 2019	**400,000,000**	**28,985,180**	**(69,443,933)**	**359,541,247**

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	**December 31, 2019 SR**	December 31, 2018 SR
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the year		**(24,582,190)**	(80,112,404)
Adjustments:			
Depreciation and amortization		**20,556,598**	22,620,564
Depreciation of right of use assets		**815,083**	-
Loss on sale of property, plant and equipment		**93,069**	6,640
Slow moving inventories		**7,161,464**	12,309,842
Amortization for arrangement fees		**20,888**	349,282
Impairment of accounts receivable		**6,359,187**	35,410,858
Finance cost		**6,388,971**	6,937,146
Loss on disposal of intangible assets		-	75,903
Allowance against amounts due from subsidiary		**488,616**	2,120,236
Employees end-of-service benefits		**2,576,427**	2,684,121
Impairment of property, plant and equipment		**1,117,612**	191,869
Zakat expenses		**9,450,000**	10,200,000
Operating cash flows before changes in working capital		**30,445,725**	12,794,057
Changes in working capital			
Accounts receivable		**60,635,425**	22,346,900
Inventories		**(11,164,717)**	17,648,117
Accounts payable		**(36,860,145)**	30,630,113
Cash generated from operations		**43,056,288**	83,419,187
Finance cost paid		**(11,503,292)**	(13,303,723)
Employee end-of-service benefits paid		**(2,578,499)**	(7,256,370)
Zakat paid		**(10,653,176)**	(8,217,304)
Net cash generated from operating activities		**18,321,321**	54,641,790
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(2,493,252)**	(2,568,435)
Proceeds from sale of property, plant and equipment		**358,998**	-
Purchase of intangible assets		**(1,321,765)**	(974,399)
Net cash used in investing activities		**(3,456,019)**	(3,542,834)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (decrease) increase on short-term loans		**(15,091,160)**	1,224,158
Lease liability paid		**(1,139,707)**	-
Repayment of long-term loans		-	(50,822,435)
Net cash used in financing activities		**(16,230,867)**	(49,598,277)
Net (decrease) increase in cash and cash equivalents		**(1,365,565)**	1,500,679
Cash and cash equivalents at the beginning of the year		**15,684,038**	14,183,359
Cash and cash equivalents at the end of the year		**14,318,473**	15,684,038
Supplementary information for non-cash transactions:			
Impact of adopting of IFRS 16		**11,018,423**	-
Short term loans restructured to long term		**55,000,000**	-
Transfer from property, plant and equipment to intangible assets		**656,851**	-
Impact of adopting of IFRS 9		-	1,968,291

The accompanying notes from (1) to (29) form an integral part of these consolidated financial statements

1. ACTIVITIES

Middle East Specialized Cables Company ("MESC") ("the Company") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010102402 dated 10 Jumada Awal 1413H (corresponding to 4 November 1992).

The Company and its subsidiary (collectively "the Group") are engaged in the production and sale of flexible electric, coaxial, rubber and nylon coated wires and cables, telephone cables for internal extensions, computer cables, safety and anti-fire wires and cables and control and transmission of information cables.

The address of the Company's registered office is as follows:

Al Bait project, Building No. 1
Salahuddin Street
PO Box 585
Riyadh 11383
Kingdom of Saudi Arabia

The Company had the following subsidiary and investments as at 31 December 2019. The financial statements of this subsidiary are consolidated and the investments are recorded at fair value in these consolidated financial statements.

		Current legal ownership %		
Subsidiary/ Investments	**Legal status**	**2019**	**2018**	**Country of Incorporation**
Middle East Specialized Cables Company- Jordan (MESC Jordan)	Joint Stock Company	**19.9**	19.9	Jordan
MESC for Medium and High Voltage Cables Company*	Closed Joint Stock Company	**57.5**	57.5	Jordan
MESC - Ras Al-Khaimah	Limited Liability Company	**100**	100	United Arab Emirates

Fair value for the Company's investments in Jordan is zero.

* The Extra Ordinary General Assembly of the subsidiary in Jordan "MESC for Medium and High Voltage Cables Company" decided in their Meeting dated on October 11, 2017 to liquidate the Company. As a result of that, Middle east specialized Cables Co (MESC KSA) lost control of MESC for Medium and High Voltage Cables Company. Consequently, MESC KSA stopped consolidating MESC for Medium and High Voltage Cables Company from October 11, 2017 and considered as discontinued operation.

Going concern

The Board of Directors has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future for a period of at least 12 months from the approval of the consolidated financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants.

The consolidated financial statements have been prepared on the historical cost basis except for the defined employee benefit obligations that have been assessed actuarially as described in the significant accounting policies.

The consolidated financial statements are presented in Saudi Riyals, which is the functional and presentation currency of the Group, and all values are rounded to the nearest Saudi Riyal, except where otherwise indicated.

3. BASIS OF CONSOLIDATION

Business combinations
Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value with the exception of liabilities related to employee benefit arrangements which are recognized and measured in accordance with IAS 19.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

3. BASIS OF CONSOLIDATION (Continued)

Subsidiaries

Subsidiaries are entities controlled by the Company. Control is achieved when the Company:

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

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

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

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

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

A change in the ownership interest of a subsidiary, without loss of control, is recorded in the statement of changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Loss of control

If tbe Company loses control over its subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

Transactions eliminated on consolidation

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

4. USE OF JUDGMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Useful lives and residual values of property, plant and equipment and intangible assets

An estimate of the useful lives and residual values of property, plant and equipment and intangible assets is made for the purposes of calculating depreciation and amortization respectively. These estimates are made based on expected usage for useful lives. Residual value is determined based on experience and observable data where available.

Provision of expected credit loss

The expected credit loss provision is determined by reference to a combination of factors to ensure that financial assets are not overpriced due to the probability that they will not be collected, including their quality, age, credit rating and collateral. Economic data and indicators are also taken into account.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the last five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested.

The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Provision of slow moving inventory

Inventories are stated at the lower of cost and net realizable value. Adjustments are made to reduce the cost of inventories to net recoverable amount, if necessary.

Influencing factors includes changes in inventory demand, technological changes, deterioration of quality and other quality matters. Accordingly, the Group considers these factors and takes them into account to calculate the provision of idle stock and slow movement. Any adjustments that may result from the difference in these factors are periodically reviewed.

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity specific estimates.

4. USE OF JUDGMENTS AND ESTIMATES (Continued)

Employee defined benefit plans
Employee defined benefit liabilities are determined using an actuarial valuation which requires estimates to be made of the various inputs. These estimates have been disclosed in note 15.

Fair value measurement

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or the liability.

The principal or the most advantageous market must be accessible by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or the liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.
All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy. This is described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 New standards, interpretations, and amendments adopted by the Group

The Group applies, for the first time, IFRS 16 “Rent Contracts”. As required by IAS 34, the nature and effect of these changes are disclosed below.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.1 New standards, interpretations, and amendments adopted by the Group (Continued)

5.1.1 IFRS 16 - Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

In the current period, the Group has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019.
The Group elected to use the practical expedient available on transition to IFRS 16 not to reassess whether a contract contains a lease or not, allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group also adopted the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases that are expiring during 2019.
- Excluded initial direct cost from measuring the right-of-use asset at the date of initial application.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Nature of the effect of adoption of IFRS 16
Prior to adoption of IFRS 16:

Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease based on the substance of the arrangement at the inception date.

A lease was classified as a finance lease that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

In an operating lease, the leased property was not capitalized and the lease payments were recognized as operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Any prepaid and accrued amounts were recognized under prepayments and other payables, respectively.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.1 New standards, interpretations, and amendments adopted by the Group (Continued)

5.1.1 IFRS 16 – Leases (Continued)

Nature of the effect of adoption of IFRS 16 (Continued)

After adoption of IFRS 16:
Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the modified retrospective method of adoption, the Group applied IFRS 16 at the date of initial application. Under modified retrospective approach 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 recognized in the statement of financial position as at 31 December 2018 with no impact on accumulated losses. Accordingly, the comparative information is not restated.

Impact on the consolidated financial statements

The following tables summarizes impacts of adopting IFRS 16 on the Group's consolidated financial statements:

Consolidated statement of Profit or loss for the year ended 31 December 2019

	Balances without adoption of IFRS 16	Adjustments	As reported
Sales	468,183,087	-	468,183,087
Cost of sales	(415,146,344)	344,614	(414,801,730)
Gross profit	**53,036,743**	**344,614**	**53,381,357**
Selling and marketing expenses	(20,935,481)	-	(20,935,481)
General and administrative expenses	(41,164,560)	-	(41,164,560)
Other expenses	(24,535)	-	(24,535)
Operating loss	**(9,087,833)**	**344,614**	**(8,743,219)**
Finance cost	(5,804,904)	(584,067)	(6,388,971)
Net loss before zakat	**(14,892,737)**	**(239,453)**	**(15,132,190)**
Zakat	(9,450,000)	-	(9,450,000)
Net loss for the year	**(24,342,737)**	**(239,453)**	**(24,582,190)**

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.1 New standards, interpretations, and amendments adopted by the Group (Continued)

5.1.1 IFRS 16 – Leases (Continued)

Impact on the consolidated financial statements (continued)

Consolidated statement of financial position as at 31 December 2019:

	Balances without adoption of IFRS 16	Adjustments	As reported
ASSETS			
Non-current assets			
Property, plant and equipment	175,858,624	-	175,858,624
Intangible assets	3,499,313	-	3,499,313
Right of use assets	-	10,203,340	10,203,340
Non-current accounts receivable	33,001,262	-	33,001,262
Total non-current assets	**212,359,199**	**10,203,340**	**222,562,539**
Current assets			
Inventories	132,986,461	-	132,986,461
Accounts receivable	304,922,735	(516,713)	304,406,022
Cash and cash equivalent	14,318,473	-	14,318,473
Total current assets	**452,227,669**	**(516,713)**	**451,710,956**
TOTAL ASSETS	**664,586,868**	**9,686,627**	**674,273,495**
EQUITY AND LIABILITIES			
Share capital	400,000,000	-	400,000,000
Statutory reserve	28,985,180	-	28,985,180
Accumulated losses	(69,204,480)	(239,453)	(69,443,933)
TOTAL EQUITY	**359,780,700**	**(239,453)**	**359,541,247**
Liabilities			
Non-current liabilities			
Long-term loans	94,088,798	-	94,088,798
Lease liability - non current portion	-	8,814,875	8,814,875
Employees' end of service benefits	19,108,400	-	19,108,400
Total non-current liabilities	**113,197,198**	**8,814,875**	**122,012,073**
Current liabilities			
Current portion of long-term loans	6,537,999	-	6,537,999
Short-term loans	6,660,318	-	6,660,318
Accounts payable	163,375,820	-	163,375,820
Lease liability – current portion	-	1,111,205	1,111,205
Zakat payable	14,993,646	-	14,993,646
Dividends payable	41,187	-	41,187
Total current liabilities	**191,608,970**	**1,111,205**	**192,720,175**
Total liabilities	**304,806,168**	**9,926,080**	**314,732,248**
TOTAL EQUITY AND LIABILITIES	**664,586,868**	**9,686,627**	**674,273,495**

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.1 New standards, interpretations, and amendments adopted by the Group (Continued)

5.1.1 IFRS 16 – Leases (Continued)

Impact on the consolidated financial statements (Continued)

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

- Right-of-use assets of SAR 11,018,423 were recognized and presented separately in the statement of financial position.
- Lease liabilities of SAR 10,481,720 and presented separately in the statement of financial position.
- Prepayments of SAR 536,703 related to previous operating leases were reclassified to the right of use assets.

Impact on the consolidated statement of financial position (increase/(decrease)) as at 1 January 2019:

	1 January 2019 SAR
Assets	
Right-of-use assets	11,018,423
Prepayments	(536,703)
	10,481,720
Liabilities	
Lease liabilities	10,481,720
	10,481,720

For the year ended 31 December 2019:

- Depreciation expense increased by SAR 815,083 relating to the depreciation of right of use assets recognized.
- Rent expense decreased by SAR 1,159,697 relating to previous operating leases.
- Finance costs increased by SAR 584,067 relating to the interest expense on additional lease liabilities recognized.

Impact on the consolidated statement of profit or loss for the year ended 31 December 2019:

	31 December 2019 SAR
Depreciation expense (included in cost of sales)	815,083
Rent expense (included in cost of sales)	(1,159,697)
Operating loss	**(344,614)**
Finance costs	584,067
Net loss for the year	**239,453**

Amounts recognized in the statement of consolidated financial position

As at 31 December 2019, the cost of right of use assets is SAR 11,018,423 and accumulated depreciation is SAR 815,083.

For the year ended 31 December 2019, the Group has recognized interest expense of SAR 584,067 on lease liability and total cash flow for leases is SAR 1,139,707.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.1 New standards, interpretations, and amendments adopted by the Group (Continued)

5.1.1 IFRS 16 – Leases (Continued)

Impact on the consolidated financial statements (Continued)

Below are the new accounting policies of the Group after adoption of IFRS 16:

Leases

The Group assess whether a contract contains a lease, at inception of the contract. For all such lease arrangements the Group recognize right of use assets and lease liabilities except for the short term leases and leases of low value assets as follows:

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.
In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.1 New standards, interpretations, and amendments adopted by the Group (Continued)

5.1.2 IFRIC 23 'Uncertainty over income tax treatments'

This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS Interpretation Committee 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. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. 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.

The adoption of this clarification does not have any material impact on the financial statements during the year.

5.2 Standards issued but not yet effective

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted them in preparing these Consolidated Financial Statements.

5.2.1 Amendments to IFRS 3 – definition of a business

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

5.2.2 Amendments to IAS 1 and IAS 8 on the definition of material

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

1) Use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
2) Clarify the explanation of the definition of material; and
3) Incorporate some of the guidance in IAS 1 about immaterial information.

5.2.3 Amendments to IFRS 9 and IFRS 7 – Interest rate benchmark reform

These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally, cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the consolidated statement of profit or loss.

5.3 Annual Improvements to IFRSs 2015–2017 Cycle

These improvements are effective on or after 1 January 2019.

- **IFRS 3, 'Business combinations', -** a group remeasures its previously held interest in a joint operation when it obtains control of the business.

- **IFRS 11, 'Joint arrangements', -** a group does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

- **IAS 12, 'Income taxes'** – a group accounts for all income tax consequences of dividend payments in the same way.

- **IAS 23, ' Borrowing costs'** - a group treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4 Revenue

Revenue is measured based on the consideration specified in a contract with customer and excludes amount collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or service to a customer. The principles in IFRS 15 are applied using the following five steps:

Step 1: *The Group accounts for a contract with a customer when*:

- The contract has been approved and the parties are committed;
- Each party's rights are identified;
- Payment terms are defined;
- The contract has commercial substance; and
- Collection is probable.

Step 2: *The Group identify all promised goods or services in a contract and determines whether to account for each promised good or service as a separate performance obligation. A good or service is distinct and is separated from other obligations in the contract if both:*

- the customer can benefit from the good or service separately or together with other resources that are readily available to the customer; and
- the good or service is separately identifiable from the other goods or services in the contract.

Step 3: *The Group determine the transaction price, which is the amount of consideration it expects to be entitled to in exchange for transferring promised goods or services to a customer.*

Step 4: *The transaction price in an arrangement is allocated to each separate performance obligation based on the relative standalone selling price of the good or service being provided to the customer.*

Step 5: *Revenue is recognized when control of the goods or services is transferred to the customer. The Group transfers a good or service when the customer obtains control of that good or service. A customer obtains control of a good or service if it has the ability to direct the use of and receive the benefit from the good or service.*

The following is a description, accounting policies and significant judgements of the principal activities from which the Group generates revenue.

Sales of goods

Revenue is recognized when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer.

5.5 Financial instruments

The Group recognizes a financial asset or a financial liability in its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group recognizes a financial instrument at its fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.5 Financial instruments (Continued)

Financial assets

IFRS 9 introduces new classification and measurement requirements for financial assets. IFRS 9 requires all financial assets to be classified and subsequently measured at either amortized cost or fair value. The classification depends on the business model for managing the financial asset and the contractual cash flow characteristics of financial asset, determined at the time of initial recognition.

Financial assets are classified into the following specified categories under IFRS 9:

- Debt instruments at amortized cost;
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets at fair value through profit and loss (FVPL).

Financial assets classified as amortized cost

Debt instruments that meet the following conditions are subsequently measured at amortized cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this best reflects the way the business is managed and information is provided to management. In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How management evaluates the performance of the portfolio;
- Whether the management's strategy focus on earning contractual commission income;
- The degree of frequency of any expected asset sales;
- The reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)
5.5 Financial instruments (Continued)
Financial assets classified as amortized cost (Continued)

Income is recognized on an effective interest basis for debt instruments measured subsequently at amortized cost. Interest is recognized in the consolidated statement of profit or loss.

Debt instruments that are subsequently measured at amortized cost are subject to impairment.

Financial assets designated as FVOCI with recycling

Debt instruments that meet the following conditions are subsequently measured at FVOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial instruments measured at FVOCI, commission income and impairment losses or reversals are recognized in consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. All other changes in the carrying amount of these instruments are recognized in other comprehensive income and accumulated under the investment revaluation reserve. When these instruments are derecognized, the cumulative gains or losses previously recognized in consolidated statement of other comprehensive income are reclassified to the consolidated statement of profit or loss.

Financial assets classified as FVPL

Investments in equity instruments are classified as at FVPL, unless the Group designates an investment that is not held for trading as at FVOCI on initial recognition.

Debt instruments that do not meet the amortized cost of FVOCI criteria are measured at FVPL. In addition, debt instruments that meet the amortized cost criteria but are designated as at FVPL to avoid accounting mismatch are measured at fair value through income statement. A debt instrument may be designated as at FVPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instrument as FVPL since the date of initial application of IFRS 9 (i.e. 1 January 2018).
Debt instruments are reclassified from amortized cost to FVPL when the business model is changed such that the amortized cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVPL on initial recognition is not allowed.

Financial assets at FVPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in consolidated statement of profit or loss.

Commission income on debt instruments as at FVPL is included in the consolidated statement of profit or loss.

Dividend income on investments in equity instruments at FVPL is recognized in the consolidated statement of profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 15 Revenue from Contracts with Customers.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.5 Financial instruments (Continued)

Investment in equity instruments designated as FVOCI

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVOCI. Designation as at FVOCI is not permitted if the equity investment is held for trading.

A financial asset or financial liability is held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in consolidated statement of other comprehensive income and accumulated in other reserves. Gain and losses on such equity instruments are never reclassified to consolidated statement of profit or loss and no impairment is recognized in income statement. Investment in unquoted equity instruments which were previously accounted for at cost in accordance with IAS 39, are now measured at fair value. The cumulative gain or loss will not be reclassified to income statement on disposal of the investments.

Dividends on these investments are recognized in statement of income when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Investment in equity instruments designated as FVOCI (Continued)

Investment revaluation reserve includes the cumulative net change in fair value of equity investment measured at FVOCI. When such equity instruments are derecognized, the related cumulative amount in the fair value reserve is transferred to retained earnings.

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses (ECL) on debt instruments that are measured at amortized cost or at FVOCI, lease receivables, trade receivables, as well as on loan commitments and financial guarantee contracts. No impairment loss is recognized for investments in equity instruments. The amount of expected credit losses reflects changes in credit risk since initial recognition of the respective financial instrument.

The Group applies the simplified approach to calculate impairment on trade receivables and this always recognizes lifetime ECL on such exposures. ECL on these financial assets are estimated using a flow rare based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group applies the general approach to calculate impairment. Lifetime ECL is recognized when there has been a significant increase in credit risk since initial recognition and 12 month ECL is recognized the credit risk on the financial instrument has not increased significantly since initial recognition. The assessment of whether credit risk of the financial instrument has increased significantly since initial recognition is made through considering the change in risk of default occurring over the remaining life of the financial instrument.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.5 Financial instruments (Continued)

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default for financial assets, this is represented by the assets' gross carrying amount at the reporting date. Exposure at default for off balance sheet items is arrived at by applying a credit conversion factor to the undrawn portion of the exposure.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, finance lease receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The Group recognizes an impairment gain or loss in the consolidated statement of profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVOCI, for which the loss allowance is recognized in consolidated statement of other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset or substantially all the risk and rewards of ownership to another entity. If the Group neither transfer nor retains substantially all the risks and reward of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.5 Financial instruments (Continued)

Financial liabilities

Financial liabilities carried at amortized cost have been classified and measured at amortized cost using the effective yield method.

For financial liabilities that are designated as at FVPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in consolidated statement of other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in consolidated statement of profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to consolidated statement of profit or loss.

The liability credit reserve includes the cumulative changes in the fair value of the financial liabilities designated as at fair value through profit or loss that are attributable to changes in the credit risk of these liabilities and which would not create or enlarge accounting mismatch in income statement. Amount presented in liability credit reserve are not subsequently transferred to consolidated statement of profit or loss. When such investments are derecognized, the related cumulative amount in the liability credit reserve is transferred to retained earnings. Since the date of initial application of IFRS 9 (i.e. 1 January 2018), the Group has also not designated any financial liability as at FVPL.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

5.6 Foreign currencies

The Group's consolidated financial statements are presented in Saudi Riyals, which is the presentational and functional currency in Kingdom of Saudi Arabia.
Transactions in foreign currencies are initially recorded by the Group at their market exchange rate against the functional currency at the date the transaction first qualifies for recognition.
Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.
Differences arising on settlement or translation of monetary items are recognized in consolidated statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in consolidated statement of OCI until the net investment is disposed of, at which time, the cumulative amount is classified to consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in consolidated statement of OCI.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time, that is more than one year, to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. No borrowing costs are capitalized during idle periods.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in Consolidated Statement of Other Comprehensive Income and released to Consolidated Statement of Profit or Loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in Consolidated Statement of Profit or Loss in the period in which they are incurred.

5.8 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

5.9 Employee benefits

Employees' end of service benefits

The end-of-service benefits provision is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurements, comprising actuarial gains and losses, are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in consolidated statement of other comprehensive income in the period in which they occur. Remeasurements recognized in consolidated statement of other comprehensive income are reflected immediately in retained earnings and will not be reclassified to consolidated statement of profit or loss in subsequent periods. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs. Interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- interest expense; and
- remeasurements

The Group presents the first two components of defined benefit costs in consolidated statement of profit or loss in relevant line items. Remeasurements are presented as part of consolidated statement of other comprehensive income.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.9 Employee benefits (Continued)

Short-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave, air tickets and sick leave that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service. The liability is recorded at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Retirement benefits

Retirement benefits made to defined contribution plans are expensed when incurred.

5.10 Zakat

Zakat is calculated and provided for by the Group in accordance with General Authority of Zakat and Tax (GAZT) regulations and is charged to consolidated statement of profit or loss. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

5.11 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. When spare parts are expected to be used during more than one period, then they are accounted for as property, plant and equipment.

Historical cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes accounted for on a prospective basis.

The Group applies the following annual rates of depreciation to its property, plant and equipment:

Buildings	5%
Plant and machinery	7% to 25%
Furniture, fixtures and office equipment	10% to 15%
Motor vehicles	20%

Land and capital work in progress is not depreciated.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognized in consolidated statement of profit or loss.

5.12 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. The cost of intangible assets acquired in a business combination is their fair value at the effective date of the business combination. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.12 Intangible assets (Continued)

Intangible assets, which comprises software and test certificates, are amortized over a period of five years and three years respectively.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

5.13 Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Goodwill and assets that have indefinite useful live, for example land, are tested annually for impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in consolidated statement of profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

5.14 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.15 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with banks, all of which are available for use by the Group unless otherwise stated and have maturities of 90 days or less, which are subject to insignificant risk of changes in values.

5.16 Expenses

Cost of sales

Cost of sales represents all expenses directly attributable or incidental to the core production activities of the Group.

Selling, marketing and administrative expenses

Selling and marketing expenses are costs arising from the Group's efforts underlying marketing activities and function. All other expenses are classified as administrative expenses. Allocation of common expenses between cost of sales, selling and marketing and administrative expenses, where required, is made on a reasonable basis with regards to the nature and circumstances of the common expenses.

5.17 Current versus Non-current classification

The Group presents its assets and liabilities in the consolidated statement of financial position based on a current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current assets.

A liability is current when it is:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Due to be settled within 12 months after the reporting period; or
- When there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current liabilities.

6. PROPERTY, PLANT AND EQUIPMENT

Cost	Land SR	Buildings SR	Plant and machinery SR	Furniture, fixtures and office equipment SR	Motor vehicles SR	Work in progress SR	Total SR
January 1, 2019	8,460,313	146,108,062	345,008,540	17,813,086	7,392,391	5,704,332	530,486,724
Additions	-	72,216	1,615,276	380,417	-	425,343	2,493,252
Disposals	-	(2,291,279)	(1,933,105)	(1,128,320)	(577,500)	(64,522)	(5,994,726)
Transfer to intangible assets	-	-	-	-	-	(656,851)	(656,851)
Transfers from Work in progress	-	-	355,340	-	-	(355,340)	-
December 31, 2019	**8,460,313**	**143,888,999**	**345,046,051**	**17,065,183**	**6,814,891**	**5,052,962**	**526,328,399**
Accumulated Depreciation And Impairment							
January 1, 2019	-	68,482,458	242,283,009	16,185,340	6,761,107	1,554,238	335,266,152
Depreciation	-	6,363,057	12,521,622	549,914	194,077	-	19,628,670
Disposals	-	(2,236,000)	(1,681,591)	(1,065,068)	(560,000)	-	(5,542,659)
Impairment loss	-	841,070	-	-	-	276,542	1,117,612
December 31, 2019	-	**73,450,585**	**253,123,040**	**15,670,186**	**6,395,184**	**1,830,780**	**350,469,775**
Net Book Value							
January 1, 2019	**8,460,313**	**77,625,604**	**102,725,531**	**1,627,746**	**631,284**	**4,150,094**	**195,220,572**
December 31, 2019	**8,460,313**	**70,438,414**	**91,923,011**	**1,394,997**	**419,707**	**3,222,182**	**175,858,624**

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

Cost	Land SR	Buildings SR	Plant and machinery SR	Furniture, fixtures and office equipment SR	Motor vehicles SR	Work in progress SR	Total SR
January 1, 2018	8,460,313	146,026,747	345,338,543	17,385,801	7,392,391	4,957,521	529,561,316
Additions	-	81,315	864,258	452,332	-	1,170,530	2,568,435
Disposals	-	-	(1,617,980)	(25,047)	-	-	(1,643,027)
Transfers from Work in progress	-	-	423,719	-	-	(423,719)	-
December 31, 2018	**8,460,313**	**146,108,062**	**345,008,540**	**17,813,086**	**7,392,391**	**5,704,332**	**530,486,724**
Accumulated Depreciation And Impairment							
January 1, 2018	-	62,168,674	229,680,548	15,432,102	6,528,083	1,362,369	315,171,776
Depreciation	-	6,313,784	14,215,923	776,163	233,024	-	21,538,894
Disposals	-	-	(1,613,462)	(22,925)	-	-	(1,636,387)
Impairment loss	-	-	-	-	-	191,869	191,869
December 31, 2018	-	**68,482,458**	**242,283,009**	**16,185,340**	**6,761,107**	**1,554,238**	**335,266,152**
Net Book Value							
January 1, 2018	8,460,313	83,858,073	115,657,995	1,953,699	864,308	3,595,152	214,389,540
December 31, 2018	**8,460,313**	**77,625,604**	**102,725,531**	**1,627,746**	**631,284**	**4,150,094**	**195,220,572**

Certain items of property, plant and equipment, except land, with a net book value of SR 90 million (December 31, 2018: SR 101 million) is mortgaged as security against loans (see note 14)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

CHANGES IN ESTIMATES

During 2018, the Company conducted an operational efficiency review at its plants, which resulted in changes in the expected usage of the machineries. The machineries, which management had previously estimated a useful economic life of 14.3 years of use, is now expected to remain in production for up to 20 years from the date of purchase. The effect of these changes on current and expected depreciation expense, included in "cost of sales", was as follows:

	2018	2019	2020	2021	2022	Later
(Decrease) increase in depreciation expense	(3,581,750)	(4,520,677)	(3,372,644)	(3,660,602)	(2,669,585)	18,185,270

The allocation of depreciation expenses between cost of revenue and administrative expenses is as follows:

	December 31, 2019 SR	December 31, 2018 SR
Cost of sales	**19,119,916**	20,847,575
General and administrative expenses	**508,754**	691,319
December 31,	**19,628,670**	21,538,894

7. INTANGIBLE ASSETS

	Software SR	**Test certificates SR**	**Total SR**
Cost			
January 1, 2018	3,144,012	2,396,029	5,540,041
Additions	704,416	269,983	974,399
Disposal	(1,559,017)	-	(1,559,017)
December 31, 2018	2,289,411	2,666,012	4,955,423
Additions	990,001	331,764	1,321,765
Transfer from property, plant and equipment	656,851	-	656,851
December 31, 2019	**3,936,263**	**2,997,776**	**6,934,039**
Accumulated Amortization			
January 1, 2018	2,599,773	308,469	2,908,242
Amortization	298,250	783,420	1,081,670
Disposal	(1,483,114)	-	(1,483,114)
December 31, 2018	1,414,909	1,091,889	2,506,798
Amortization	151,999	775,929	927,928
December 31, 2019	**1,566,908**	**1,867,818**	**3,434,726**
Net Book Value			
January 1, 2018	544,239	2,087,560	2,631,799
December 31, 2018	874,502	1,574,123	2,448,625
December 31, 2019	**2,369,355**	**1,129,958**	**3,499,313**

The amortization charge has been in the line "General and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

8. RIGHT-OF-USE ASSETS

Right of use assets represent leased lands which generally have lease terms between 20 to 25 years. The cost and related accumulated depreciation are presented below:

	2019 SR	2018 SR
Cost		
Balance at 1 January	-	-
Impact of adoption IFRS 16	11,018,423	-
Balance at 31 December	**11,018,423**	-
Accumulated Depreciation		
Balance at 1 January	-	-
Additions during the year	815,083	-
Balance at 31 December	**815,083**	-
Net book value	**10,203,340**	-

Lease liabilities as at the year-end are as follows:

	2019 SR	2018 SR
Current portion	**1,111,205**	-
Non-current portion	**8,814,875**	-
	9,926,080	-

The group recognized finance charges SAR 584,067 on lease liabilities during the year ended 31 December 2019 (31 December 2018: nil).

Rent expenses related to short-term leases and low-value assets amounted to SAR 1,594,735 and none respectively.

9. ACCOUNTS RECEIVABLE

	December 31, 2019 SR	December 31, 2018 SR
Trade receivables	**295,118,512**	360,600,498
Retention receivables	**66,013,448**	66,662,195
Less: allowance for doubtful debts	**(54,334,189)**	(54,287,059)
Net trade receivables	**306,797,771**	372,975,634
Advances to suppliers	**6,004,082**	6,422,913
Prepaid expenses	**2,078,333**	3,417,142
Margin deposits	**1,315,211**	1,491,185
Employee loans	**767,804**	885,566
Due from former subsidiary	**45,786,259**	45,316,333
Allowance for due from former subsidiary	**(26,564,832)**	(26,076,216)
Due from related parties (note 17)	**866,065**	472,092
Other receivables	**356,591**	522,566
	337,407,284	405,427,215
Analyzed between:		
Current assets	**304,406,022**	368,447,172
Non-current assets	**33,001,262**	36,980,043
	337,407,284	405,427,215

Trade receivables:

The Group's credit period on sales of goods is between 60 to 120 days. No interest is charged on trade receivables. The Group has recognized an allowance for doubtful debts against impaired trade receivables. Allowances for doubtful debts are recognized against trade receivables based on estimated irrecoverable amounts determined by reference to the past default experience of the counterparty and an analysis of the counterparty's current financial position, where available.

The Group performs credit-vetting procedures before granting credit to new customers. These procedures are reviewed and updated on an ongoing basis.

The company has one customer which comprise 26% of the total trade receivables balance. (December 31, 2018: one customer which comprise 23%)

Movement in the allowance for doubtful debts

	December 31, 2019 SR	December 31, 2018 SR
Opening balance	**54,287,059**	28,886,685
Impact of adoption IFRS 9	**-**	1,968,291
Charged for the year	**6,359,187**	35,410,858
Write off during the year	**(6,312,057)**	(11,978,775)
Closing balance	**54,334,189**	54,287,059

9. ACCOUNTS RECEIVABLE (Continued)

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

The ageing of impaired trade receivables is as follows:

	December 31, 2019 SR	December 31, 2018 SR
0 to 180 days	**4,826,599**	-
180 to 360 days	**1,768,877**	577,860
360 to 720 days	**12,529,043**	7,297,157
Over 720 days	**35,209,670**	46,412,042
	54,334,189	54,287,059

Trade receivables disclosed include the amounts totaling SR 110 million (December 31, 2018: SR 127 million) that are past due at the end of the reporting period. Some of these balances for the Group are secured by Letters of Credit issued by the customer's bank, and customer agreements for rescheduling the receivables.

The ageing of trade receivables that are past due is as follows:

	December 31, 2019 SR	December 31, 2018 SR
0 to 180 days	**75,003,384**	72,872,085
180 to 360 days	**17,742,387**	29,346,695
360 to 720 days	**16,218,471**	16,074,649
Over 720 days	**573,531**	8,971,386
	109,537,773	127,264,815

10. INVENTORIES

	December 31, 2019 SR	December 31, 2018 SR
Finished goods	**105,158,449**	79,043,721
Raw and packing materials	**38,986,734**	47,802,663
Work in process	**15,468,715**	15,602,026
Spare parts	**8,464,017**	8,146,140
Goods in transit	**3,619,083**	11,765,619
	171,696,998	162,360,169
Less: allowance for slow moving inventories	**(38,710,537)**	(33,376,961)
	132,986,461	128,983,208
Cost of inventories recognized as an expense during the year	**414,801,730**	543,722,638
Inventory written of during the year	**1,827,888**	800,661

10. INVENTORIES (Continued)

Movement in the allowance for slow moving inventories:

	December 31, 2019 SR	December 31, 2018 SR
Opening balance	**33,376,961**	21,867,780
Charge for the year	**7,161,464**	12,309,842
Written off during the year	**(1,827,888)**	(800,661)
Closing balance	**38,710,537**	33,376,961

11. CASH AND CASH EQUIVALENTS

	December 31, 2019 SR	December 31, 2018 SR
Cash in hand	**187,633**	219,353
Cash at banks	**14,130,840**	15,464,685
	14,318,473	15,684,038

12. SHARE CAPITAL

The Board of Directors, on 23 Thu Alqidah 1439, corresponding to August 5, 2018, decided to recommend to the Extraordinary General Assembly to reduce the Company's capital from SR 600,000,000 to SR 400,000,000, therefore reducing the number of shares of the company from 60,000,000 shares to 40,000,000 shares by canceling 20,000,000 shares. A reduction of SR 200,000,000, to absorb the accumulated losses. On 27 Thu Alqidah 1439, corresponding to August 9, 2018, the company obtained approval from the Capital Market Authority (CMA) to reduce capital.

The reduction will be subject to the approvals of the Extraordinary General Assembly. The decision of the reduction shall be effective for all the shareholders registered with the company's records at Securities Depository Center Company (EDAA) by the end of the second trading day following the Extraordinary General Meeting that the reduction decision will be made on. On 26 Safar 1440, corresponding to November 4, 2018 the Extraordinary General Assembly approved Board of Directors' recommendation related to reduction of Company's capital.

	December 31, 2019 SR	December 31, 2018 SR
40 million ordinary shares (December 31, 2018: 40 million ordinary shares) of SR 10 each	**400,000,000**	400,000,000

13. STATUTORY RESERVE

In accordance with bye-laws of the Company and Companies Law, the Parent Company transfers 10% of its net income for the year to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital.

14. LOANS

14.1 Long-term loans

	December 31, 2019 SR	December 31, 2018 SR
Total loans	**100,626,797**	45,626,797
Less: debt arrangement costs on loans	**-**	(20,888)
	100,626,797	45,605,909
Less: current portion included in current liabilities	**(6,537,999)**	(6,517,111)
	94,088,798	39,088,798

The loans bear interest at a rate of 5.1% (December 31, 2018: 5.3%) and are secured by promissory notes, corporate guarantees and certain items of property, plant and equipment. The loan contract states is not due within 12 months of this date. However, the loan agreement contains certain covenants which were breached as at December 31, 2018.

14.2 Short-term loans

	December 31, 2019 SR	December 31, 2018 SR
Bank borrowing	**6,660,318**	21,751,478
Murabaha loan	**-**	55,000,000
	6,660,318	76,751,478

Murabaha and bank borrowing bear interest at prevailing market rates being SIBOR plus a margin as stipulated in the various loan agreements. and are secured by promissory notes, corporate guarantees and certain items of property, plant and equipment.

Analysis of change in loans for the year ended December 31, 2019 was as follow:

	Long-term loans SR	**Short-term loans SR**	**Total SR**
Opening balance	45,626,797	76,751,478	**122,378,275**
Amounts raised	-	14,220,927	**14,220,927**
Amounts repaid	-	(29,312,087)	**(29,312,087)**
Amounts rescheduled	55,000,000	(55,000,000)	-
Closing balance	100,626,797	6,660,318	107,287,115

15. EMPLOYEES' END OF SERVICE BENEFITS

	December 31, 2019 SR	December 31, 2018 SR
Opening balance	**17,802,472**	23,271,321
Current service cost	**2,576,427**	2,684,121
Interest cost	**558,000**	769,400
Paid during the year	**(2,578,499)**	(7,256,370)
Actuarial loss / (gain)	**750,000**	(1,666,000)
Closing balance	**19,108,400**	17,802,472

The most recent actuarial valuation was performed by a qualified actuary and was performed using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuation were as follows:

	December 31, 2019 %	December 31, 2018 %
Rate of salary increases	**3.0**	3.0
Discount rate	**2.9**	4.6

All movements in the employee defined benefit liabilities are recognized in consolidated statement of profit or loss except for the actuarial loss (gain) which is recognized in consolidated statement of other comprehensive income.

Sensitivity analyses

The sensitivity analyses presented below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. A positive amount represents an increase in the liability whilst a negative amount represents a decrease in the liability.

	December 31, 2019 SR	December 31, 2018 SR
Increase in discount rate of 1%	**(1,335,000)**	(1,413,750)
Decrease in discount rate of 1%	**1,518,750**	1,638,750
Increase in rate of salary increase of 1%	**1,500,000**	1,650,000
Decrease in rate of salary increase of 1%	**(1,346,250)**	(1,447,500)

16. ACCOUNTS PAYABLE

	December 31, 2019 SR	December 31, 2018 SR
Trade payables	**112,673,610**	144,481,403
Advances from customers	**5,682,609**	21,364,571
Accrued expenses	**16,016,036**	14,773,350
Due to a related party (note 17)	**11,872,237**	11,904,476
Provision for miscellaneous expenses	**7,250,396**	8,611,171
Directors remuneration payable	**3,257,292**	2,737,473
Other payables	**6,623,640**	2,619,909
	163,375,820	206,492,353

No interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

17. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group entered into the following trading transactions with related parties:

		December 31, 2019 SR	December 31, 2018 SR
Middle East Fiber Cables	Sales of goods	**237,958**	631,797
	Purchases	**224,600**	2,418,936
Contractors Services Co.	Sales of goods	**680,232**	690,344

The following balances were outstanding with related parties at the reporting date:

	December 31, 2019 SR	December 31, 2018 SR
Trade receivables:		
Middle East Fiber Cables	**866,065**	472,092
MESC for Medium and High Voltage Cables Company	**19,221,427**	19,240,117
	20,087,492	19,712,209
Trade payables:		
Middle East Specialized Cables Company- Jordan (MESC Jordan)	**11,872,237**	11,904,476

During the year, short-term employment benefits to key management personnel amounted to SR 8,065,854 (31 December 2018: SR 8,681,427)

18. ZAKAT PROVISION

The movement in Zakat payable is as follows:

	December 31, 2019 SR	December 31, 2018 SR
Balance at beginning of the year	**16,196,822**	14,214,126
Charged to profit or loss	**9,450,000**	10,200,000
Paid during the year	**(10,653,176)**	(8,217,304)
Balance at end of the year	**14,993,646**	16,196,822

The significant components of the zakat base is as follows:

	December 31, 2019 SR	December 31, 2018 SR
Equity	**455,648,257**	535,593,004
Opening provisions and other adjustments	**129,041,769**	87,984,187
Book value of non-current assets	**(213,529,963)**	(234,469,562)
	371,160,063	389,107,629
Adjusted net income	**5,368,723**	(15,979,987)
Zakat base	**376,528,786**	373,127,642

The Company settles zakat for Saudi operations and investments in foreign subsidiaries separately.
The Company has received its final assessment for the years up to December 31, 2007 and received unrestricted Zakat certificate. The Company has filed its zakat declaration for the years from December 31, 2008 and up to December 31, 2018 and obtained temporary Zakat certificate for 2018. No final assessment has been received from the General Authority for Zakat and Tax ("GAZT") for the years of assessment from 2008 onwards and no provision has been made for income taxation, as the Group did not earn any income, which was subject to income taxation.

19. SELLING AND MARKETING EXPENSES

	December 31, 2019 SR	December 31, 2018 SR
Salaries and related costs	**7,948,853**	12,265,285
Allowance for doubtful receivables	**6,359,187**	35,410,858
Freight	**2,390,601**	5,560,191
(Reversal) / allowance for impairment of retention receivables	**(1,785,432)**	570,488
Promotion and advertising	**4,718,840**	7,651,761
Travel	**396,116**	778,743
Lease charges	**177,820**	633,552
Others	**729,496**	611,820
	20,935,481	63,482,698

20. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2019 SR	December 31, 2018 SR
Salaries and related costs	**19,220,538**	22,577,020
Bank Charges	**8,943,480**	8,811,024
Allowance for receivable from share sale	**488,961**	1,955,844
Consultancy and professional fees	**5,676,633**	4,065,069
Allowance for loan to subsidiary	**488,616**	2,120,236
Debt arrangement and other costs on loans	**66,907**	1,596,953
Impairment of property	**841,070**	-
Repairs and maintenance	**2,092,272**	1,255,835
Depreciation (note 6)	**508,754**	691,319
Travel	**464,753**	688,003
Amortization of intangible assets (note 7)	**927,928**	1,081,670
Lease charges	**453,946**	577,861
Others	**990,702**	2,206,144
	41,164,560	47,626,978

21. FINANCE COST

	December 31, 2019 SR	December 31, 2018 SR
Finance cost on long-term loans	**2,007,588**	3,065,055
Finance cost on short-term loans	**3,239,316**	3,102,691
Interest cost for EOSB	**558,000**	769,400
Finance cost on lease liability	**584,067**	-
	6,388,971	6,937,146

No finance charges were capitalized during the year.

22. EMPLOYEE BENEFITS EXPENSES

	December 31, 2019 SR	December 31, 2018 SR
Employee defined benefit liabilities	**3,134,427**	3,453,521
Other employee benefits	**60,169,823**	76,748,025
	63,304,250	80,201,546

23. LOSS PER SHARE

Basic and diluted loss per share are based on net loss attributable to owners of the Company and a weighted average number of shares issued of 40 million.

24. COMMITMENTS AND CONTINGENCIES

The Group had capital commitments of SR 10.9 million (December 31, 2018: SR 10.8 million) and contingencies in the form of letters of credit and guarantees of SR 119 million (December 31, 2018: SR 154 million) at the reporting date.

25. SEGMENT INFORMATION

Information reported to the Chief Operating Decision Maker (CODM) for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The directors of the Company have chosen to organize the Group around differences in internal reporting structure.

The Group's operating segments are as follows:

- Saudi Arabia
- United Arab Emirates

Segment revenues and results

	2019		2018	
	Revenue SR	**(Loss) / profit before zakat SR**	**Revenue SR**	**Profit (loss) before zakat SR**
Revenue and profit by segment				
Saudi Arabia	**389,640,789**	**(396,859)**	497,502,472	(70,944,967)
United Arab Emirates	**192,039,320**	**(12,608,511)**	244,805,464	469,949
Intersegment elimination	**(113,497,022)**	**(2,126,820)**	(150,450,880)	562,614
	468,183,087	**(15,132,190)**	591,857,056	(69,912,404)
Segment total assets and liabilities	**Assets SR**	**Liabilities SR**	**Assets SR**	**Liabilities SR**
Saudi Arabia	**644,362,114**	**284,168,869**	717,384,345	332,510,907
United Arab Emirates	**186,727,944**	**128,561,629**	324,980,862	152,375,725
Intersegment elimination	**(156,816,563)**	**(97,998,250)**	(294,601,549)	(121,996,411)
	674,273,495	**314,732,248**	747,763,658	362,890,221

Segment revenues reported represent revenue generated from both external customers and related parties. All segments sell similar product ranges.

There is one customer who contributed more than 10% of the Group's total revenue.

26. FINANCIAL INSTRUMENTS

Capital management

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

The capital structure of the Group consists of equity and debt comprising issued capital, the statutory reserve, accumulated losses and loans.

Categories of financial instruments

	December 31, 2019 SR	December 31, 2018 SR
Financial assets		
Cash and bank balances	**14,318,473**	15,684,038
Loans and receivables	**329,324,869**	395,587,160
Financial liabilities		
Amortized cost	**264,980,326**	307,485,169

Market risk

The Group was exposed to market risk, in the form of interest rate risk as described below, during the period under review. There were no changes in these circumstances from the previous year.

Foreign currency risk management

The Group's significant transactions are in Saudi Riyals and United States Dollars which are pegged against the Saudi Riyal at a fixed exchange rate. Management monitors fluctuations in foreign exchange rates and manages their effect on the consolidated financial statements accordingly. The Group did not have any significant foreign currency denominated monetary assets or liabilities at the reporting date for which it was exposed to foreign currency fluctuations. Consequently, no foreign currency sensitivity analysis has been presented.

Interest rate and liquidity risk management

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

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. The Group does not hedge its exposure to movements in interest rates.

26. FINANCIAL INSTRUMENTS (Continued)

Interest and liquidity rate risk management (Continued)

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would have decreased or increased by SR 536,436 (December 31, 2018: SR 611,787). The Group's exposure to interest rates has decreased during the year as a result of a decrease in interest-bearing borrowings.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows:

December 31, 2019 Details	Interest rate %	Within one year SR	One year to five years SR	Over five years SR	Total SR
Long-term loans	4.9%	**6,655,000**	**98,941,353**	-	**105,596,353**
Short-term loans	5.9%	**7,055,376**	-	-	**7,055,376**
Accounts payable	Interest free	**157,693,211**	-	-	**157,693,211**
Total		**171,403,587**	**98,941,353**	-	**270,344,940**

December 31, 2018 Details	Interest rate %	Within one year SR	One year to five years SR	Over five years SR	Total SR
Long-term loans	5.9%	6,923,000	41,155,618	-	48,078,618
Short-term loans	5.4%	80,917,064	-	-	80,917,064
Accounts payable	Interest free	185,127,782	-	-	185,127,782
Total		272,967,846	41,155,618	-	314,123,464

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Potential concentrations of credit risk consist principally of trade receivables, amounts due from a related party and short-term cash investments. Details of how credit risk relating to trade receivables is managed is disclosed in note 9. The amounts due from a related party are monitored and provision is made, where necessary, for any irrecoverable amounts. Short-term cash investments are only placed with banks with a high credit rating.

Fair value of financial instruments

The directors consider that the carrying values of the financial instruments reported in the statement of financial position approximates their fair values.

27. RETIREMENT BENEFIT INFORMATION

The Group makes contributions for a defined contribution retirement benefit plan to the General Organization for Social Insurance (GOSI) in respect of its Saudi Arabian employees. The total amount expensed during the year in respect of this plan was SR 1,367,338 (December 31, 2018: SR 1,767,241).

28. SUBSEQUENT EVENTS

The existence of novel coronavirus (COVID-19) was confirmed in early 2020 and has spread across multiple geographies, causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event. It is not practicable to provide a quantitative estimate of the potential impact at this stage. The Group does not foresee major impact on its operations, if the situation is normalized within a reasonable time period. The management and those charged with governance will continue to monitor the situation across all geographies and accordingly update stakeholders as per the regulatory requirements. Any changes in circumstances may require enhanced disclosures or recognition of adjustments in the condensed interim consolidated financial statements of the Group for the subsequent periods during the financial year 2020.

29. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved on 29 Rajab 1441H (Corresponding to 24 March 2020).