**TAKWEEN ADVANCED INDUSTRIES**
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**
**FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2017**
**WITH INDEPENDENT AUDITOR'S REVIEW REPORT**

**TAKWEEN ADVANCED INDUSTRIES**
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**
**FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2017**

| INDEX | PAGE |
|---|---|
| Independent auditor's review report | 1 |
| Condensed consolidated interim statement of financial position | 2 |
| Condensed consolidated interim statement of income and other comprehensive income | 3 |
| Condensed consolidated interim statement of changes in equity | 4 |
| Condensed consolidated interim statement of cash flows | 5 |
| Notes to the condensed consolidated interim financial statements | 6-36 |

**Al-Bassam & Al-Nemer**
**Allied Accountants**
(Member firm of PKF International)

Audit – Consultants – Zakat & Tax

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

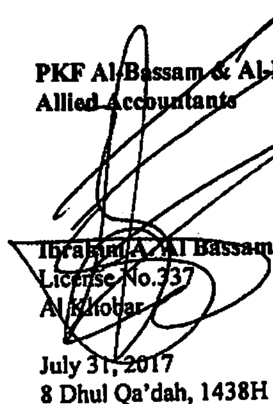
**The Shareholders of**
**Takween Advanced Industries**
**(A Saudi Joint Stock Company)**
**Al-Khobar, Kingdom of Saudi Arabia**

**Introduction**
We have reviewed the accompanying condensed consolidated interim statement of financial position of Takween Advanced Industries (the "Company") and its subsidiaries (collectively referred to as the "Group") as of June 30, 2017 and the related condensed consolidated interim statement of income and other comprehensive income for the three months and six months then ended and condensed consolidated interim statements of changes in equity and cash flows for the six-months period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standards No. 34, "Interim Financial Reporting" as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement endorsed by Saudi Organization of Certified Public Accountants. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

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

**Conclusion**
Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standards No. 34.

**PKF Al-Bassam & Al-Nemer**
**Allied Accountants**



**Ibrahim A. Al Bassam**
**License No.337**
**Al Khobar**

July 31, 2017
8 Dhul Qa'dah, 1438H



**Al-Bassam & Al-Nemer Allied Accountants is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.**

TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
## AS AT JUNE 30, 2017

| | Note | June 30, 2017 (Un-audited) SR '000 | December 31, 2016 (Restated) (Note 2.1) SR '000 | January 1, 2016 (Restated) (Note 2.1) SR '000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | 1,161,164 | 1,207,616 | 1,212,975 |
| Intangible assets | 9 | 337,499 | 337,414 | 347,751 |
| **Total non-current assets** | | 1,498,663 | 1,545,030 | 1,560,726 |
| **Current assets** | | | | |
| Inventories | 6 | 350,197 | 332,312 | 456,705 |
| Trade receivable | 5 | 364,211 | 343,835 | 412,732 |
| Prepaid expenses and other receivables | 7 | 61,804 | 77,777 | 114,891 |
| Cash and cash equivalents | | 76,543 | 43,269 | 106,794 |
| **Total current assets** | | 852,755 | 797,193 | 1,091,122 |
| **TOTAL ASSETS** | | 2,351,418 | 2,342,223 | 2,651,848 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 1 | 950,000 | 950,000 | 350,000 |
| Statutory reserve | | 29,419 | 29,419 | 29,419 |
| Other reserves | | (48,161) | (48,479) | (6,439) |
| (Accumulated losses) retained earnings | | (39,553) | (17,981) | 59,494 |
| **Total equity** | | 891,705 | 912,959 | 432,474 |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Medium and long term loans | 8 | 398,699 | 447,304 | 797,905 |
| Employee benefits | 10 | 40,095 | 38,165 | 47,559 |
| **Total non-current liabilities** | | 438,794 | 485,469 | 845,464 |
| **Current liabilities** | | | | |
| Current portion of medium and long term loans | 8 | 94,593 | 83,502 | 217,617 |
| Short-term loans | 8 | 613,177 | 610,452 | 811,686 |
| Trade payable and other liabilities | | 313,149 | 249,841 | 344,607 |
| **Total current liabilities** | | 1,020,919 | 943,795 | 1,373,910 |
| **Total liabilities** | | 1,459,713 | 1,429,264 | 2,219,374 |
| **TOTAL EQUITY AND LIABILITIES** | | 2,351,418 | 2,342,223 | 2,651,848 |

| Imran Yar<br>Chief Financial Officer | Azhar Kenji<br>Chief Executive Officer | Abdulmohsen Al-Othman<br>Managing Director |
|---|---|---|
| | | |

The accompanying notes 1 to 16 form an integral part of these condensed consolidated interim financial statements.

**TAKWEEN ADVANCED INDUSTRIES**
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME**
**FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2017**

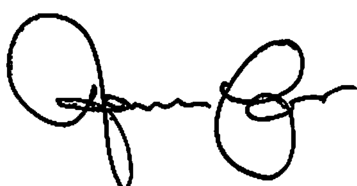
| | | From April 1 to June 30 | | From January 1 to June 30 | |
|---|---|---|---|---|---|
| | | 2017 (Un-audited) | 2016 (Restated) (Note 2.1) | 2017 (Un-audited) | 2016 (Restated) (Note 2.1) |
| | Note | SR '000 | SR '000 | SR '000 | SR '000 |
| Revenue | 11 | 342,598 | 403,968 | 647,320 | 756,637 |
| Cost of revenue | 11 | (308,218) | (325,836) | (576,306) | (620,985) |
| **Gross profit** | | 34,380 | 78,132 | 71,014 | 135,652 |
| General and administrative expenses | 11 | (19,676) | (29,985) | (40,298) | (51,500) |
| Selling and distribution expenses | | (16,033) | (16,320) | (27,011) | (31,108) |
| Research expenses | | (356) | (368) | (504) | (606) |
| **Operating (loss) income** | | (1,685) | 31,459 | 3,201 | 52,438 |
| Finance charges | | (11,841) | (18,127) | (26,088) | (36,049) |
| Other expenses/ income, net | | 1,767 | (1,473) | 3,561 | (905) |
| **Net (loss) profit before zakat and income tax** | | (11,759) | 11,859 | (19,326) | 15,484 |
| Zakat and income tax | | (908) | 644 | (2,246) | (1,101) |
| **Net (loss) profit for the period** | | (12,667) | 12,503 | (21,572) | 14,383 |
| **Other Comprehensive income:** | | | | | |
| *Other comprehensive income to be reclassified to profit or loss:* | | | | | |
| Foreign currency translation differences | | 143 | (7,551) | 318 | (6,564) |
| **Total other comprehensive profit (loss) for the period** | | 143 | (7,551) | 318 | (6,564) |
| **Total comprehensive (loss) income for the period** | | (12,524) | 4,952 | (21,254) | 7,819 |
| **Earnings per share** | | | | | |
| **Basic and diluted (loss) earnings per share** | 13 | (0.13) | 0.33 | (0.23) | 0.38 |
| Weighted average number of shares | 13 | 95,000,000 | 38,150,000 | 95,000,000 | 38,150,000 |

The accompanying notes 1 to 16 form an integral part of these condensed consolidated interim financial statements.

TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
## FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017

| | Share capital | Statutory reserve | Other reserves | Retained earnings (Accumulated losses) | Equity attributable to the shareholders |
|---|---|---|---|---|---|
| | SR '000 | SR '000 | SR '000 | SR '000 | SR '000 |
| **Balance as at January 1, 2016 – As per SOCPA** | 350,000 | 29,419 | (6,439) | 82,041 | 455,021 |
| *Impact of adoption of international financial reporting standards (IFRS). (Note 2.1)* | - | - | - | (22,547) | (22,547) |
| **Balance as of January 1, 2016 – As per IFRS** | 350,000 | 29,419 | (6,439) | 59,494 | 432,474 |
| Net profit for the period | - | - | - | 14,383 | 14,383 |
| Other comprehensive loss | - | - | (6,564) | - | (6,564) |
| **Balance as at June 30, 2016 (Un-audited)** | 350,000 | 29,419 | (13,003) | 73,877 | 440,293 |
| | | | | | |
| **Balance as at January 1, 2017 – As per SOCPA** | 950,000 | 29,419 | (51,987) | 9,369 | 936,801 |
| *Impact of adoption of international financial reporting standards (IFRS). (Note 2.1)* | - | - | 3,508 | (27,350) | (23,842) |
| **Balance as at January 1, 2017 – As per IFRS** | 950,000 | 29,419 | (48,479) | (17,981) | 912,959 |
| Net loss for the period | - | - | - | (21,572) | (21,572) |
| Other comprehensive income | - | - | 318 | - | 318 |
| **Balance as at June 30, 2017 – (Un-audited)** | 950,000 | 29,419 | (48,161) | (39,553) | 891,705 |

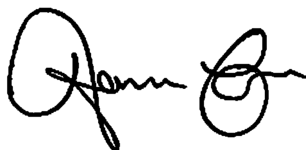


The accompanying notes 1 to 16 form an integral part of these condensed consolidated interim financial statements.

TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017

| | June 30, 2017 (Un-audited) | June 30, 2016 (Restated) (Note 2.1) |
|---|---|---|
| | SR '000 | SR '000 |
| **OPERATING ACTIVITIES** | | |
| Net (loss) profit for the period before zakat and income tax | (19,326) | 15,484 |
| Adjustment for: | | |
| Depreciation | 64,432 | 59,512 |
| Amortization of intangible assets | 1,388 | 1,738 |
| Finance charges | 26,088 | 36,049 |
| Employee benefits charge | 4,399 | 2,519 |
| | 76,981 | 115,302 |
| **Movement in working capital:** | | |
| Trade receivable | (20,376) | (30,394) |
| Inventories | (17,885) | (10,518) |
| Prepaid expenses and other receivables | 15,973 | (27,325) |
| Trade payable and other liabilities | 62,772 | (62,860) |
| **Cash from (used in) operations** | 117,465 | (15,795) |
| Finance charges paid | (26,088) | (30,372) |
| Employee benefits paid | (2,469) | (4,115) |
| Zakat and income tax paid | (1,762) | (5,347) |
| **Net cash from (used in) operating activities** | 87,146 | (55,629) |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | (17,821) | (62,086) |
| Additions to intangible assets | (1,473) | (2,315) |
| **Net cash used in investing activities** | (19,294) | (64,401) |
| **FINANCING ACTIVITIES** | | |
| Change in short term loans | 2,725 | 162,650 |
| Change in medium and long term loans | (37,514) | (42,283) |
| **Net cash (used in) from financing activities** | (34,789) | 120,367 |
| **Net change in cash and cash equivalents** | 33,063 | 337 |
| Cash and cash equivalents at the beginning of the period | 43,269 | 106,794 |
| Foreign currency translation reserve | 211 | (2,638) |
| **Cash and cash equivalent at the end of the period** | 76,543 | 104,493 |



The accompanying notes 1 to 16 form an integral part of these condensed consolidated interim financial statements.

## 1. ORGANIZATION AND ACTIVITIES

Takween Advanced Industries ("the Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 2051044381 issued in Al Khobar on Muharram 9, 1432H (December 15, 2010). The Company's share capital is SR 950 million divided into 95 million shares of SR 10 each.

The Board of directors in a meeting held on December 17, 2015 had proposed to increase the share capital by SR 600 million by issuance of right shares to its shareholders. In the Extraordinary General Assembly held on September 21, 2016, it was decided to issue the shares at par value i.e. SR 10. Right issue was subscribed in full and shares were issued to the shareholders effective October 23, 2016. As a result of right issue during the year ended December 31, 2016, the share capital of the Company was increased to SR 950 million comprising of 95 million shares of SR 10 each. All the legal formalities for increase in share capital were completed during 2016.

The condensed consolidated interim financial statements include the financial statements of the Company and its subsidiaries ("The Group') as listed below:

| | Effective ownership | |
|---|---|---|
| | June 2017 | June 2016 |
| • Advanced Fabrics Factory Company ("SAAF") | 100% | 100% |
| • Ultra Pak Manufacturing Company ("Ultra Pak") | 100% | 100% |
| • Saudi Plastic Packaging Systems (formerly Savola Packaging System Company Limited) ("Saudi Packaging") | 100% | 100% |
| • Al-Sharq Company for Plastic Industries Limited ("Al-Sharq") | 100% | 100% |
| • New Marina for Plastic Industries Company (S.A.E.) ("New Marina") | 100% | 100% |

All of the above subsidiaries operate in Kingdom of Saudi Arabia with the exception of New Marina, which is registered in Alexandria, Arab Republic of Egypt. The principal activities of the Group companies, each of which operates under individual commercial registration, are:

- Owning of factories with various plastic products manufacturing together with maintaining, operating and managing;
- Production of disposable polystyrene cups, lids and other plastic related products;
- Production of non-woven fabrics;
- Production of PET (Polyethylene Terephthalate) pre-forms;
- Manufacturing of, and wholesale trading in plastic containers and films;
- Manufacturing of, and wholesale and retail trading in plastic containers and polyethylene cups, rolls and bags.
- Managing and operating of industrial centers;
- Owning of land for the purpose of establishing and developing factories;
- Establishing industrial institutes and providing and coordinating for training courses related to developing of plastic products;
- Import and export, wholesale and retail trade in various kind of plastic products; and
- Establishing, managing, operating and maintaining different industrial project.

## 2. IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND APPLICATION OF NEW AND REVISED IFRS

### 2.1 Impact of IFRS Implementation

The Group has applied the International Financial Reporting Standard (IFRS) for the first time in its consolidated financial statements with effect from January 1, 2017. The date of transition to IFRS is January 1, 2016. The quantitative impact of the transition is detailed further on in this note. The first financial statement issued under IFRS covered the three-month period ended March 31, 2017.

The condensed consolidated interim financial statements have been prepared in accordance with 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 ("SOCPA") and the requirements of International Accounting Standard 34 "Interim Financial Reporting" and IFRS 1 "First time Adoption of International Financial Reporting Standards".

These condensed consolidated interim financial statements, for the six-month period ended June 30, 2017, have been prepared in accordance with IFRS. For periods up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

The Group has prepared condensed consolidated interim financial statements that comply with IFRS applicable as at June 30, 2017, together with the comparative consolidated statement of financial position as at January 1, 2016. In preparing the consolidated interim financial statements, the Group's opening consolidated statement of financial position was prepared as at January 1, 2016 which is the Group's date of transition to IFRS in addition to December 31, 2016. Notes 2.1.1 and 2.1.2 detail the adjustments made by the Group in restating its SOCPA consolidated financial statements, including the consolidated statement of financial position as at January 1, 2016 and the condensed consolidated interim statement of income for the period ended June 30, 2016 and the financial statements as at December 31, 2016.

**Exemptions applied**

IFRS allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following exemption;

- **Goodwill:**
  IFRS 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before January 1, 2016. Use of this exemption means that SOCPA carrying amounts of assets and liabilities, that are required to be recognized under IFRS, is their deemed cost at the date of acquisition. After the date of acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognize or exclude any previously recognized amounts as a result of IFRS recognition requirements.

  IFRS 1 also requires that the SOCPA carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition and derecognition of intangible assets). In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at January 1, 2016.

**2.1.1 Effect of IFRS adoption on the statement of financial position**

| | | December 31, 2016 | | | January 1, 2016 | | |
|---|---|---|---|---|---|---|---|
| | | | As per | | | As per | |
| | Note 2.1.3 | SOCPA SR '000 | Transition effect SR '000 | IFRS SR'000 | SOCPA SR '000 | Transition effect SR '000 | IFRS SR '000 |
| **ASSETS** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Property, plant and equipment | | 1,207,616 | - | 1,207,616 | 1,212,975 | - | 1,212,975 |
| Intangible assets | | 337,414 | - | 337,414 | 347,751 | - | 347,751 |
| | | 1,545,030 | - | 1,545,030 | 1,560,726 | - | 1,560,726 |
| **Current assets** | | | | | | | |
| Inventories | | 332,312 | - | 332,312 | 456,705 | - | 456,705 |
| Trade receivable | | 343,835 | - | 343,835 | 412,732 | - | 412,732 |
| Prepaid expenses and other receivables | | 77,777 | - | 77,777 | 114,891 | - | 114,891 |
| Cash and cash equivalents | | 43,269 | - | 43,269 | 106,794 | - | 106,794 |
| | | 797,193 | - | 797,193 | 1,091,122 | - | 1,091,122 |
| **TOTAL ASSETS** | | 2,342,223 | - | 2,342,223 | 2,651,848 | - | 2,651,848 |
| **Equity** | | | | | | | |
| Share capital | | 950,000 | - | 950,000 | 350,000 | - | 350,000 |
| Statutory reserve | | 29,419 | - | 29,419 | 29,419 | - | 29,419 |
| Other reserves | b | (51,987) | 3,508 | (48,479) | (6,439) | - | (6,439) |
| Retained earnings (accumulated losses) | a , b | 9,369 | (27,350) | (17,981) | 82,041 | (22,547) | 59,494 |
| | | 936,801 | (23,842) | 912,959 | 455,021 | (22,547) | 432,474 |
| **Non-current liabilities** | | | | | | | |
| Medium and long term loans | a | 424,760 | 22,544 | 447,304 | 781,992 | 15,913 | 797,905 |
| Employee benefits | b | 36,867 | 1,298 | 38,165 | 40,925 | 6,634 | 47,559 |
| | | 461,627 | 23,842 | 485,469 | 822,917 | 22,547 | 845,464 |
| **Current liabilities** | | | | | | | |
| Current portion of medium and long term loans | | 83,502 | - | 83,502 | 217,617 | - | 217,617 |
| Short term loans | | 610,452 | - | 610,452 | 811,686 | - | 811,686 |
| Trade payable and other liabilities | | 249,841 | - | 249,841 | 344,607 | - | 344,607 |
| | | 943,795 | - | 943,795 | 1,373,910 | - | 1,373,910 |
| **TOTAL EQUITY AND LIABILITIES** | | 2,342,223 | - | 2,342,223 | 2,651,848 | - | 2,651,848 |

**2.1.1 Effect of IFRS adoption on the condensed consolidated statement of financial position (Continued)**

**Reconciliation of equity under IFRS and SOCPA.**

Reconciliation of equity

| | Note 2.1.3 | December 31, 2016 SR '000 | January 1, 2016 SR '000 |
|---|---|---|---|
| Total equity under SOCPA | | 936,801 | 455,021 |
| Remeasurement of medium and long term loans | a | (22,544) | (15,913) |
| Increase in provision against employees end of service indemnities | b | (1,298) | (6,634) |
| Total adjustments to equity | | (23,842) | (22,547) |
| Total equity under IFRS | | 912,959 | 432,474 |

**2.1.2 Impact of transition on condensed consolidated interim statement of income:**

| | Note 2.1.3 | For six months ended June 30, 2016 SOCPA SR '000 | Transition Adjustment SR '000 | For six months ended June 30, 2016 IFRS SR '000 |
|---|---|---|---|---|
| Revenue, net | | 756,637 | - | 756,637 |
| Cost of revenue | | (620,985) | - | (620,985) |
| **Gross profit** | | 135,652 | - | 135,652 |
| General and administrative expenses | b | (51,458) | (42) | (51,500) |
| Selling and distribution expenses | | (31,108) | - | (31,108) |
| Research expenses | | (606) | - | (606) |
| **Operating income** | | 52,480 | (42) | 52,438 |
| Finance charges | a , b | (30,372) | (5,677) | (36,049) |
| Other income | | (905) | - | (905) |
| **Profit before zakat and income tax** | | 21,203 | (5,719) | 15,484 |
| Zakat and income tax | | (1,101) | - | (1,101) |
| **Net profit for the period** | | 20,102 | (5,719) | 14,383 |
| **Other comprehensive income** | | | | |
| Exchange difference on translation of foreign exchange | | - | (6,564) | (6,564) |
| **Net profit for the period attributable to Shareholders** | | 20,102 | (12,283) | 7,819 |

**2.1.2 Impact of transition on condensed consolidated interim statement of income (Continued):**

| | Note 2.1.3 | For three months ended June 30, 2016 SOCPA | Transition Adjustment | For three months ended June 30, 2016 IFRS |
|---|---|---|---|---|
| | | SR '000 | SR '000 | SR '000 |
| Revenue, net | | 403,968 | - | 403,968 |
| Cost of revenue | | (325,836) | - | (325,836) |
| **Gross profit** | | 78,132 | - | 78,132 |
| General and administrative expenses | b | (29,259) | (726) | (29,985) |
| Selling and distribution expenses | | (16,320) | - | (16,320) |
| Research expenses | | (368) | - | (368) |
| **Operating income** | | 32,185 | (726) | 31,459 |
| Finance charges | a , b | (16,282) | (1,845) | (18,127) |
| Other income | | (1,473) | - | (1,473) |
| **Profit before zakat and income tax** | | 14,430 | (2,571) | 11,859 |
| Zakat and income tax | | 644 | - | 644 |
| **Net profit for the period** | | 15,074 | (2,571) | 12,503 |
| **Other comprehensive income** | | | | |
| Exchange difference on translation of foreign exchange | | - | (7,551) | (7,551) |
| **Net profit for the period attributable to Shareholders** | | 15,074 | (10,122) | 4,952 |

**2.1.3 Notes to reconciliation:**

**a) Re-measurement of Medium and Long Term Loans**

Under SOCPA, the Group used to amortize debt arrangement cost on straight line basis. Upon conversion to IFRS the Group has made an assessment to re-measure its debt arrangement cost related to its medium and long term loans using effective interest rate method as required by IAS 39. The effect of this change is a decrease in equity by SR 15.91 million and SR 22.54 million as at January 1, 2016 and December 31, 2016 respectively. The effect on consolidated statement of comprehensive income for the period ended June 30, 2016 is SR 4.85 million and for the year ended December 31, 2016 is SR 6.63 million.

**2.1.3 Notes to reconciliation (Continued):**

**b) Employee benefits**

Under SOCPA, the Group accounted for employee benefits with reference to the mode of computation stipulated under the Saudi Labor law. Under IFRS, the Group accounts for employee benefits as a defined benefit obligation recognized on actuarial basis. Accordingly, the Group appointed an independent actuary for the computation of the defined benefit liability as at January 1, 2016 and onwards. The obligation computed by the actuary as compared with the liability recorded under SOCPA has resulted in an increase of SR 6.63 million and SR 1.30 million as at January 1, 2016 and December 31, 2016 respectively which was adjusted against retained earnings.

The impact of actuarial valuation for employee benefits in statement of income is increase by SR 0.87 million for the six months' period ended June 30, 2016. The actuarial valuation as of December 31, 2016 resulted in actuarial gain amounting to SR 3.51 million which is recognized in Other Comprehensive Income.

**2.2 New and revised IFRS in issue but not yet effective**

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| **IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014)** | January 1, 2018 |

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement.

The standard contains requirements in the following areas:

**Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

**2.2 New and revised IFRS in issue but not yet effective (Continued)**

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized. | January 1, 2018 |
| **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. | |
| **De-recognition:** The requirements for the de-recognition of financial assets and liabilities are carried forward from IAS 39. | |
| **Amendments to IFRS 4 Insurance Contracts:** Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard. | January 1, 2018 |
| **Amendments to IAS 40 Investment Property:** Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive. | January 1, 2018 |
| **Amendments to IFRS 7 Financial Instruments:** Disclosures relating to disclosures about the initial application of IFRS 9. | When IFRS 9 is first applied |
| **IFRS 7 Financial Instruments:** Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9. | |
| **IFRS 15 Revenue from Contracts with Customers:** | January 1, 2018 |

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.

**2.2 New and revised IFRS in issue but not yet effective (Continued)**

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| **IFRS 15 Revenue from Contracts with Customers: (Continued)** | January 1, 2018 |

Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

**IFRS 16 Leases** — January 1, 2019

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

**Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011)** relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture — January 1, 2018

**IFRIC 22 - Foreign Currency Transactions and Advance Consideration** — January 1, 2018

These amendments clarify the transaction date used to determine the exchange rate. IFRIC 22 is effective for annual reporting periods beginning on or after January 01, 2018.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application. However, it is not practical at this stage to provide a reasonable estimate on the effects of IFRS 9, IFRS 15 and IFRS 16 until the group performs a detailed review.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Basis of preparation

These financial statements have been prepared under the "historical cost convention" except for: -

- Employees benefits liability which has been actuarially valued.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

### 3.2 Statement of compliance

The condensed consolidated interim financial statements have prepared in accordance with International Financial Reporting Standards ("IFRS") and IAS 34, Interim Financial reporting as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants. IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied as at March 31, 2017 and June 30, 2017, together with the comparative consolidated statement of financial position as at January 1, 2016 and December 31, 2016. The date of transition to IFRS is January 1, 2016. For periods up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with accounting standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The first financial statements issued under IFRS covered the period ending March 31, 2017.

The disclosures in this condensed consolidated interim financial information do not include the information required to be reported for full annual audited financial statements, however, additional disclosures have been included to reflect the transition to IFRS. Comparative condensed consolidated interim statements of financial position is extracted from annual restated financial statements as of December 31, 2016 whereas comparative condensed consolidated interim profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity were extracted from unaudited restated condensed consolidated interim financial information of the Group for the period ended June 30, 2016.

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for certified Public Accountants and the requirements of IAS 34 Interim Financial Reporting.

The Capital Market Authority (CMA) has decided that the options to use the revaluation model for property, plant, and equipment and intangible assets in IAS 16 and IAS 38 and the option to use the fair value model for investment property in IAS 40 will not be available for the first three years post transition from 2017 to 2019 for listed companies. Upon completion of the aforementioned period, the CMA will study whether to continue to require the cost model or whether to allow the application of the fair value/revaluation models. Under this circumstance the Group can not avail these options for current financial year.

IFRS 1 allows first-time adopters certain exemptions upon transition from the retrospective application of certain requirements under IFRS. IFRS 1 Prohibits retrospective application of IFRS with respect to accounting Estimates", and also for " de-recognition of financial assets and liabilities", "Hedge accounting", "Non-controlling interest", "classification and measurement of financial assets", "impairment of financial assets", "embedded derivatives" and "government loans". The Group has applied relevant IFRSs on these transactions prospectively from the transition date.

The Group has applied the certain optional exemptions as explained in Note 2.1.

These condensed consolidated interim financial statements are presented in Saudi Riyals (SR) in thousands, which is the functional and reporting currency of the Group. All amounts have been rounded to the nearest thousands, unless otherwise stated.

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

### 3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries detailed in note 1. 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 shareholders' meetings.

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

Condensed consolidated statement of Income and each component of other comprehensive income are attributed to the shareholders of the Company. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company.

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

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

#### 3.3.1 Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the Group.

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

**3.3.1 Changes in the Group's ownership interests in existing subsidiaries** (Continued)

When the Group loses control of a subsidiary, a gain or loss is recognized in the condensed consolidated interim statement of income and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified condensed consolidated interim statement of income or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

**3.4 Business combination and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquirer's identifiable net assets. Acquisition costs incurred are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognized in the condensed consolidated interim statement of income.

Goodwill represents the excess cost of investments over the fair value of the net assets acquired in a business combination. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or groups of units.

Goodwill is tested annually for impairment when circumstances indicate that the carrying value may be impaired, and is carried at cost net of accumulated impairment losses. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Negative goodwill represents the excess of the fair value of the net assets acquired and the cost of investments in a business combination. Negative goodwill is recognized in the condensed consolidated interim statement of income.

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

### 3.4 Business combination and goodwill (Continued)

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed-off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed-off in this circumstance is measured based on the relative values of the operation disposed-off and the portion of the cash-generating unit retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the condensed consolidated interim statement of income.

### 3.5 Revenue recognition

Sales represent amounts received and receivable from third parties for goods supplied to the customers and for services rendered.

Revenue is recognized to the extent of the following recognition requirements:

- It is probable that the economic benefits will flow to the Group,
- It can be reliably measured, regardless of when the payment is being made; and
- The cost incurred to date and expected future costs are identifiable and can be measured reliably.

Revenue is measured at the fair value of the consideration received or the contractually defined terms of payment. The specific recognition criteria described below must also be met before the revenue is recognized.

#### *3.5.1 Sale of Goods*

Revenue from sales is recognized upon delivery or shipment of products by which the significant risks and rewards of ownership of the goods have been transferred to the buyer and the Group has no effective control or continuing managerial involvement to the degree usually associated with ownership over the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Other income is recognized when earned.

### 3.6 Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through statement of income) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value are recognized immediately in statement of income. Financial assets are mainly classified under: 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

### 3.7 Effective interest rate method

The effective interest rate (EIR) method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

### 3.8 Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in statement of income.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through condensed consolidated interim statement of income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

### 3.9 De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an 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.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity, is recognized in statement of income.

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

### 3.9 De-recognition of financial assets (Continued)

On de-recognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in statement of income. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

### 3.10 Financial Liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and financial guarantee contracts.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognized in the consolidated income statement. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and Borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated income statement. This category generally applies to interest-bearing loans and borrowings.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated income statement.

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

### 3.11 Research expenses

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale,
- its intention to complete and its ability and intention to use or sell the asset,
- how the asset will generate future economic benefits,
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

### 3.12 General and administrative and selling and distribution expenses

General and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocations between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the Group's products. All other expenses are classified as general and administrative expenses.

### 3.13 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with the bank, all of which have maturities of 90 days or less and are available for use by the Group unless otherwise stated. In the consolidated statement of financial position, bank overdraft is shown under line item borrowings.

### 3.14 Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials, packing material and spare parts purchase cost weighted average cost basis
- Finished goods and work-in-process weighted average cost basis: these include cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### 3.15 Property, Plant, and Equipment

Property, plant and equipment are stated at their cost less accumulated depreciation and accumulated impairment losses.

Properties in the course of construction are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

### 3.15 Property, Plant, and Equipment (Continued)

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property and equipment (except freehold land and building under construction) are depreciated over its useful lives using the straight line method.

The estimated useful life of the principal classes of assets are as follows:

| | Year |
|---|---|
| Buildings, leasehold and other improvements | 3 – 5 |
| Plant, machinery and equipment | 5 – 20 |
| Vehicles | 20 – 25 |
| Furniture, fixtures and office equipment | 20 – 25 |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property 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 and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in statement of income.

Capital work in progress represents the accumulated costs incurred by the group in relation to the construction of its building and structures in the development stage. Cost incurred are initially charged to the capital work in progress then these costs are transferred to property and equipment when the construction of these facilities are completed. Finance costs on borrowings attributable to the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

### 3.16 Intangible assets

Intangible assets anticipated to provide identifiable future benefits are classified as non-current assets. Intangible assets comprise goodwill, software and system development costs and right of use of leased land. Enterprise resource planning (ERP) system development costs represent costs incurred to implement new system and are amortized over 5-year period from the date it is fully implemented. The right of use of leased land is amortized over the lease period using the straight-line method. For goodwill, refer to business combination and goodwill policy.

### 3.17 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. 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.

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

### 3.17 Impairment of tangible and intangible assets (Continued)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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 statement of income.

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 statement of income.

### 3.18 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bank-ruptcy of the Group or the counterparty.

### 3.19 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 some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### 3.20 Dividends

Dividends are recognized as liability at the time of their approval in the annual general assembly meeting. Interim dividends are recorded as and when approved by the board of directors.

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

### 3.21 Foreign currency translation

#### 3.21.1 Presentation currency

The accompanying condensed consolidated interim financial statements are presented in Saudi Riyals which is the functional currency and presentation currency of the parent company. Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the group entity operates (the functional currency).

#### 3.21.2 Transaction and balances

Transactions denominated in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of each reporting period are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences on monetary items are recognized in the consolidated statement of income in the period in which they arise except for:

• exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to consolidated statement of income on repayment of the monetary items.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to statement of income. In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognized in the statement of income. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to statement of income.

### 3.22 Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's managing director and CEO to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the managing director and CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items compose mainly corporate expenses and related assets/liabilities (primarily the Company's headquarters). Head office expenses, research and development costs and related assets/liabilities, some goodwill and intangible assets and income tax assets and liabilities.

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

### 3.23 Employee benefits

#### 3.23.1 Employee defined benefit liabilities

The end-of-service indemnity 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 statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurements recognized in other comprehensive income are reflected immediately in retained earnings and will not be reclassified to condensed consolidated interim statement of income in subsequent periods. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in condensed consolidated interim statement of income 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 condensed consolidated interim statement of income in the line item 'Administration expenses'.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

#### 3.23.2 Short-term and other long-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

### 3.24 Zakat and income tax

The company is subject to the regulations of the General Authority of Zakat & Tax ("GAZT") in the kingdom of Saudi Arabia. Moreover, the subsidiaries are subject to the relevant laws relating to income tax in the countries where they conduct their activities. Zakat is calculated on accrual basis. Zakat is calculated on the higher of zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

### 3.25 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group does not have any finances leases.

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

### 3.25 Leasing (Continued)

#### 3.25.1 The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 3.26 Statutory reserve

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

### 3.27 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible bonds and share options granted to employees. Earnings per share are computed by dividing net income for the period by the weighted average number of shares as of period end.

### 3.28 Borrowing cost

Borrowing cost directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing cost are recognized in condensed consolidated interim statement of income in the period in which they are incurred.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of condensed consolidated interim financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

***Impairment of trade and other receivable***
A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the agreement. Significant financial difficulties of the counter party, probability that the counter party will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts, which are not significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

***Allowance for slow moving inventory items***
The management makes an allowance for slow moving and obsolete inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration, fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year.

***Provisions and contingencies***
A provision for incurred liabilities is recognized when the Group has a present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resource will be required to settle the obligation and the amount has been reliably estimated.

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly with the control of the Group; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; assessed at each balance sheet date and disclosed in the Group's financial statements under contingent liabilities.

***Useful lives of property, plant and equipment***
The management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

***Impairment of non-financial assets***
Non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-current assets other than intangible assets and that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income. Impairment losses recognized on intangible assets and available for sale securities are not reversible.

## 5. TRADE RECEIVABLE

| | June 30, 2017 | December 31, 2016 | January 1, 2016 |
|---|---|---|---|
| | SR'000 | SR '000 | SR '000 |
| Trade receivables | 373,797 | 356,488 | 423,893 |
| Trade receivables - related parties | 16,507 | 11,855 | 21,958 |
| Due from related parties balances | 170 | 85 | 1,673 |
| | 390,474 | 368,428 | 447,524 |
| Less: provision for doubtful debts | (26,263) | (24,593) | (34,792) |
| | 364,211 | 343,835 | 412,732 |

The movement in provision for doubtful receivables is as follows:

| | June 30, 2017 | December 31, 2016 | January 1, 2016 |
|---|---|---|---|
| | SR '000 | SR '000 | SR'000 |
| Opening balance | 24,593 | 34,792 | 8,422 |
| Additions for the period/year | 2,000 | 458 | 8,981 |
| Transfer on acquisition | - | - | 6,600 |
| Reversal of provision | (342) | (9,328) | - |
| Foreign currency translation | 12 | (1,329) | (211) |
| Fair valuation allocation on business combination | - | - | 11,000 |
| Closing balance | 26,263 | 24,593 | 34,792 |

The ageing of trade receivables and related allowance of impaired receivables at the reporting date as follows:

| | June 30, 2017 | | December 31, 2016 | | January 1, 2016 | |
|---|---|---|---|---|---|---|
| | Gross | Impairment | Gross | Impairment | Gross | Impairment |
| | SR '000 | SR '000 | SR '000 | SR '000 | SR '000 | SR '000 |
| Not past due | 272,998 | - | 213,010 | - | 277,691 | - |
| Past due 1-90 days | 72,006 | - | 90,235 | - | 95,010 | - |
| Past due 91-180 days | 13,264 | - | 21,597 | - | 14,073 | - |
| Above 180 days | 32,206 | 26,263 | 43,586 | 24,593 | 60,750 | 34,792 |
| | 390,474 | 26,263 | 368,428 | 24,593 | 447,524 | 34,792 |

## 6. INVENTORIES

Break down of inventories is as follows:

| | June 30, 2017 | December 31, 2016 | January 1, 2016 |
|---|---|---|---|
| | SR'000 | SR '000 | SR '000 |
| Finished goods | 112,558 | 118,854 | 138,766 |
| Raw and packaging materials and work in progress | 205,522 | 182,804 | 247,864 |
| Spare parts | 39,228 | 39,003 | 76,005 |
| | 357,308 | 340,661 | 462,635 |
| Less : provision for inventories | (7,111) | (8,349) | (5,930) |
| | 350,197 | 332,312 | 456,705 |

## 6. INVENTORIES (Continued)

Movement in the provision against inventories is as follows:

| | June 30, 2017 SR'000 | December 31, 2016 SR '000 | January 1, 2016 SR '000 |
|---|---|---|---|
| Opening balance | 8,349 | 5,930 | - |
| Additions for the period/year | - | 4,204 | 5,930 |
| Reversal of provision for the period/ year | (1,238) | (1,154) | - |
| Foreign currency translation | - | (631) | - |
| Closing balance | 7,111 | 8,349 | 5,930 |

## 7. PREPAID EXPENSES AND OTHER RECEIVABLES

Prepaid and other receivables comprise of follows:

| | June 30, 2017 SR'000 | December 31, 2016 SR '000 | January 1, 2016 SR '000 |
|---|---|---|---|
| Advances to suppliers | 11,808 | 18,298 | 18,082 |
| Prepaid expenses | 11,251 | 11,714 | 22,817 |
| Rebate receivables | 19,026 | 38,517 | 49,422 |
| Margin against bank guarantees and letter of credits | 13,848 | 4,427 | 19,713 |
| Other receivables | 5,871 | 4,821 | 4,857 |
| | 61,804 | 77,777 | 114,891 |

## 8. LOANS

Break up of loans are as follows:

| | June 30, 2017 SR'000 | December 31, 2016 SR '000 | January 1, 2016 SR '000 |
|---|---|---|---|
| Medium and long-term loans | 493,292 | 530,806 | 1,015,522 |
| Short-term loans | 613,177 | 610,452 | 811,686 |

### MEDIUM AND LONG TERM LOANS

| | June 30, 2017 SR'000 | December 31, 2016 SR '000 | January 1, 2016 SR '000 |
|---|---|---|---|
| Commercial loan | 381,347 | 390,880 | 871,767 |
| Saudi Industrial development fund ("SIDF") Loan | 111,945 | 117,382 | 127,842 |
| | 493,292 | 508,262 | 999,609 |
| Less: IFRS adjustment (Note 2.1.3) | - | 22,544 | 15,913 |
| | 493,292 | 530,806 | 1,015,522 |
| Less: current portion | (94,593) | (83,502) | (217,617) |
| | 398,699 | 447,304 | 797,905 |

## 8. BORROWINGS (Continued)

**Commercial loan** – The Group entered into Murabaha Facilities Agreement of SAR 910 million with the Arab National Bank ("the lead bank"), on behalf of Murabaha Facilities Participants, for financing the acquisition of Saudi Plastic Packaging Systems ("Saudi Packaging") (formerly Savola Packaging Systems Company Limited) along with its two subsidiaries i.e. Al-Sharq Company for Plastic Industries Limited and New Marina for Plastic Industries Company (S.A.E.). The facility is secured by irrevocable and unconditional assignment of all rights, titles and interests to the sale contract entered into with the Al Othman Agricultural Product and Production Company (NADA), a related party, revenue accounts of the Company and two of its subsidiaries i.e. Advanced Fabrics Factory Company (SAAF) and Ultra Pak Manufacturing Company (Ultrapak) and a corporate guarantee from Al-Othman Holding Company, an affiliate.

In 2016, a repayment of SR 490 million was made in respect of this loan i.e. SR 90 million pertaining to scheduled loan installment and early repayment of SR 400 million. There was no change in the term of the loan, however repayment has been rescheduled accordingly. The Group is in breach of certain covenants of long term loan which is measured half yearly i.e. June and December every year. However, management has taken necessary remedial action including obtaining waiver from the lead bank as on December 31, 2016. Accordingly, this loan continues to be classified as non-current.

**SIDF loans** - The Group entered into various loan agreements with SIDF to finance the construction of the plant facilities of the Group. The loans bear no periodic financing charges. The loans are secured by mortgage on the property, plant and equipment of the Group companies, two parcels of land owned by an affiliate and corporate guarantees from the Company. The loan appraisal fees are deferred and are being amortized over the term of the loans.

In July 2009, SIDF sanctioned a loan to Ultrapak for SR 12.85 million to finance the modernization and expansion of production facilities. The loan is repayable in twelve unequal semi-annual installments commencing Rabi' I 1, 1431 (January 31, 2010). In 2012, Ultrapak entered into a further loan agreement with SIDF to finance expansion of production facilities for an additional amount of SR 12.7 million due in 13 unequal semi-annual installments, commencing Safar 15, 1435H (December 18, 2013). During 2014, these loans have been consolidated into one facility of SR 25.5 million with an additional drawdown of SR 1.6 million which is payable in 11 unequal semiannual installments commencing from 15 Safar, 1436H (December 7, 2014) and final payment is due on Safar 15, 1441H (October 14, 2019).

In September 2013, SAAF entered into a loan agreement with SIDF to finance the construction of its new production facilities for an amount of SR 125.7 million. Repayment of the loan is in 14 unequal semi-annual installments commencing from Shawwal 15, 1436H (July 31, 2015). In 2015, an amount of SR 12.5 million and in 2014 SR 113.2 million was drawn down by the SAAF. The Group is non-compliant with certain covenants of these loan. However, the Group has received the waiver against the application for waiver of non-compliance of financial covenants for the year ended December 31, 2015 made to SIDF and is in the process of obtaining a waiver for 2016. Accordingly, management has disclosed the loan as current portion and non-current portion based on terms of contract of loan / repayment schedule.

## 9. INTANGIBLE ASSETS

| | June 30, 2017<br>SR '000 | December 31, 2016<br>SR '000 | January 1, 2016<br>SR '000 |
|---|---|---|---|
| Goodwill | 323,582 | 323,582 | 323,582 |
| Computer softwares and system development costs | 13,917 | 13,832 | 24,169 |
| | 337,499 | 337,414 | 347,751 |

## 10. EMPLOYEE BENEFITS

The Group carried out actuarial valuations to account for its obligations under defined benefit plan. As per valuation results, the Group has passed an adjustment of SR 6.63 million and SR 1.30 million as at January 1, 2016 and December 31, 2016 respectively representing additional liability and respective adjustment was made in opening retained earnings.

The impact of actuarial valuation for employee benefits in Statement of Comprehensive Income is increase in charge by SR 0.87 million for the six months' period ended June 30, 2016. The actuarial valuation as of December 31, 2016 resulted in actuarial gain amounting to SR 3.51 million which is recognized in Other Comprehensive Income.

Movement in employee benefits during the period / year:

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| | SR '000 | SR '000 |
| Opening Balance as at January 1 – as per SOCPA | 36,867 | 40,925 |
| IFRS adjustments (Note 2.1.3 b) | 1,298 | 6,634 |
| Opening Balance as at January 1 – as per IFRS | 38,165 | 47,559 |
| Charge for the period / year | 4,399 | 6,691 |
| Remeasurement gain | - | (3,508) |
| Utilization of provision | (2,469) | (12,577) |
| | 40,095 | 38,165 |

Charge to statement of income for the period / year:

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| | SR '000 | SR '000 |
| Current service cost | 3,786 | 5,038 |
| Interest cost | 613 | 1,653 |
| | 4,399 | 6,691 |

Principal actuarial assumptions:

| | December 31, 2016 |
|---|---|
| Discount factor used | 3.10% |
| Salary increase rate for the first year | 2% |
| Long term salary increase rate for the 2nd year and onwards | 4% |
| Mortality Rates | SLIC (2001-05)-01 |
| Rates of employees turnover | Heavy |

Sensitivity analysis on present value of defined benefit obligations plan are as below;

| | December 31, 2016 | |
|---|---|---|
| | Percentage | Amount SR ('000) |
| **Discount rate:** | | |
| Increase | + .5 % | 36,550 |
| Decrease | - .5 % | 39,949 |
| **Expected rate of salary increases:** | | |
| Increase | + .5 % | 39,676 |
| Decrease | - .5 % | 36,786 |

The actuarial valuation study has been conducted using projected unit credit method.

## 11. RELATED PARTY TRANSACTIONS AND BALANCES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the period, the Group entered into the following transactions with related parties that are not members of the Group:

| Nature of transaction | June 30, 2017 SR '000 | June 30, 2016 SR '000 |
|---|---|---|
| Purchase of air tickets | 2,153 | 1,850 |
| IT services | 4,923 | 3,043 |
| Purchase of materials | - | 199 |
| Expenses incurred for affiliates | 306 | 151 |
| Purchase of / advance for property, plant and equipment | - | 41,076 |
| Rentals | 866 | - |
| Revenue | 39,344 | 50,967 |
| Accommodation, food and other miscellaneous expenses | 2,440 | 1,727 |

## 12. SEGMENTAL INFORMATION

**Business segments:**

Consistent with the Group's internal reporting process, business segments have been approved by management in respect of the Group's activities. The Group's principal activities are related to the following main business segments:

- Disposable polystyrene cups, lids and other plastic related products: These includes plastic packing and packaging products of polystyrene sheet rolls used in forming, immediate packing and packaging in thermoformed and polystyrene cups and lids, high density bottles used in dairy, food and beverage industry; and

- Non-woven fabrics: These includes the composite fabrics, for use in health, industrial and medical sectors, alcohol resistant and anti-static electricity fabrics used for surgical drapes, medical and protective gowns use and fabrics made for health usages, such as children and adult diapers and women's diapers.

The Group's revenue, operating income, net income, fixed assets, total assets and total liabilities, by business segment, are as follows:

| For the six months ended June 30, 2017 | Disposable polystyrene cups, lids and other plastic-related products SR '000 | Non-woven Fabrics SR '000 | Total SR '000 |
|---|---|---|---|
| Revenue | 536,809 | 110,511 | 647,320 |
| Operating income (loss) | 18,524 | (15,323) | 3,201 |
| Net loss | (3,340) | (18,232) | (21,572) |
| **As of June 30, 2017** | | | |
| Property, plant and equipment | 758,876 | 402,288 | 1,161,164 |
| Total assets | 1,754,763 | 596,655 | 2,351,418 |
| Total liabilities | 1,045,965 | 413,748 | 1,459,713 |

## 12. SEGMENTAL INFORMATION (Continued)

| For the six months ended June 30, 2016 | Disposable polystyrene cups, lids and other plastic-related products | Non-woven Fabrics | Total |
|---|---|---|---|
| | SR '000 | SR '000 | SR '000 |
| Revenue | 633,215 | 123,422 | 756,637 |
| Operating income (loss) | 62,968 | (10,530) | 52,438 |
| Net income (loss) | 27,242 | (12,859) | 14,383 |
| **As of December 31, 2016** | | | |
| Property, plant and equipment | 810,092 | 397,524 | 1,207,616 |
| Total assets | 1,925,440 | 416,783 | 2,342,223 |
| Total liabilities | 830,600 | 598,664 | 1,429,264 |

The Group's operations are conducted in Saudi Arabia, and the Arab Republic of Egypt. Selected financial information for the period / year then ended summarized by geographic area, was as follows:

| For the six months ended June 30, 2017 | Kingdom of Saudi Arabia | Arab Republic of Egypt | Total |
|---|---|---|---|
| | SR '000 | SR '000 | SR '000 |
| Revenue | 607,539 | 39,781 | 647,320 |
| Operating (loss) income | (1,554) | 4,755 | 3,201 |
| Net (loss) income | (26,779) | 5,207 | (21,572) |
| **As of June 30, 2017** | | | |
| Property, plant and equipment | 1,149,381 | 11,783 | 1,161,164 |
| Total assets | 2,266,122 | 85,296 | 2,351,418 |
| Total liabilities | 1,413,032 | 46,681 | 1,459,713 |

| For the six months ended June 30, 2016 | Kingdom of Saudi Arabia | Arab Republic of Egypt | Total |
|---|---|---|---|
| | SR '000 | SR '000 | SR '000 |
| Revenue | 707,823 | 48,814 | 756,637 |
| Operating income | 47,976 | 4,462 | 52,438 |
| Net income | 13,472 | 911 | 14,383 |
| **As of December 31, 2016** | | | |
| Property, plant and equipment | 1,194,654 | 12,962 | 1,207,616 |
| Total assets | 2,279,562 | 62,661 | 2,342,223 |
| Total liabilities | 1,399,696 | 29,568 | 1,429,264 |

The Company's foreign subsidiary is subject to certain restrictions on outward foreign currency remittance.

## 13. EARNING PER SHARE

The (loss) / earning per share is computed by dividing net (loss) / profit for the period by the weighted average number of shares outstanding during the period ended June 30, 2017 totaling 95 million shares (2016: 38.15 million shares).

The weighted average number of shares as at June 30, 2017 and 2016 has been determined as follows:

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Weighted average number of outstanding shares before right issue | 35,000,000 | 35,000,000 |
| Add: Effect of right issue | 60,000,000 | 3,150,000 |
| Weighted average number of shares outstanding after right issue | 95,000,000 | 38,150,000 |

Weighted average number of shares and (loss) earnings per share for the period ended June 30, 2016 has been restated due to effect of the right issue during the year 2016.

## 14. FINANCIAL RISK MANAGEMENT

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

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

**Foreign currency risk management:**
Foreign currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates. The Group's major financial assets and financial liabilities are denominated in Saudi Riyal, US Dollars (USD), Euro (EUR), Emirates Dirham (AED), and Egyptian Pounds (EGP). Saudi riyals are pegged to the US Dollar, consequently balances in those currencies are not considered to represent a currency risk. Management monitors the fluctuations in Euro, Egyptian Pound currency exchange rates with Saudi Riyals and manages its effect on the financial statements accordingly. The Group did not have any significant foreign currency denominated monetary assets or liabilities at the reporting date except for assets and liabilities in Egyptian Pound, for which it was exposed to foreign currency fluctuations. Consequently, no foreign currency sensitivity analysis has been presented.

## 14. FINANCIAL MANAGEMENT (Continued)

**Foreign currency risk management (Continued):**
**Following balances are exposed to foreign currency risks;**

| | Currency | June 30, 2017 SR '000 | December 31, 2016 SR '000 | January 1, 2016 SR '000 |
|---|---|---|---|---|
| Cash and cash equivalent | USD | 25,144 | 14,040 | 7,415 |
| | EUR | 3,243 | 952 | 2,456 |
| | EGP | 16,959 | 13,148 | 14,602 |
| | AED | 1,944 | - | - |
| | | 47,290 | 28,140 | 24,473 |
| Trade receivables | EGP | 16,959 | 13,129 | 20,165 |
| | USD | 79,246 | 46,345 | 82,719 |
| | EUR | 8,334 | 7,036 | 8,485 |
| | | 104,539 | 66,510 | 111,369 |
| Trade payable and other liabilities | EGP | (381) | (455) | (1,928) |
| | USD | (27,642) | (8,401) | (17,627) |
| | EUR | (4,881) | (978) | (960) |
| | AED | (18,784) | (228) | (652) |
| | CHF | - | (51) | - |
| | GBP | (121) | (43) | (22) |
| | BHD | (18) | (18) | (18) |
| | | (51,827) | (10,174) | (21,207) |
| Short-term loans | EGP | - | (377) | (2,510) |
| | USD | (11,921) | (16,010) | (11,666) |
| | EUR | - | (880) | - |
| | | (11,921) | (17,267) | (14,176) |
| Net statement of financial position exposure | | 88,081 | 67,209 | 100,459 |

**Interest rate and liquidity risk management:**
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has interest bearing loans at June 30, 2017. 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.

## 14. FINANCIAL MANAGEMENT (Continued)

**Interest rate and liquidity risk management (Continued):**
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.

**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 assets and liabilities, the analysis is prepared assuming the amount of the assets or 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 or lower and all other variables were held constant, the Group's profit for the period would have decreased or increased by SR 2.77 million.

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

| | Interest rate | Within one year | One year to five years | Total |
|---|---|---|---|---|
| | | SR '000 | SR '000 | SR '000 |
| Trade payable and other liabilities | Interest free | 313,149 | - | 313,149 |
| Short term loans | 2.75% | 613,177 | - | 613,177 |
| Medium and long term loan | 4.5-5% | 94,593 | 398,699 | 493,292 |
| | | 1,020,919 | 398,699 | 1,419,618 |

The total carrying value of financial liabilities held at amortized cost amounted to SR 493.29 million as at June 30, 2017.

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

The maximum exposure to credit risk at the reporting date was

| Description | June 30, 2017 | December 31, 2016 | January 1, 2016 |
|---|---|---|---|
| | SR '000 | SR '000 | SR '000 |
| Cash and cash equivalents | 76,543 | 43,269 | 106,794 |
| Trade receivables – third party | 373,797 | 356,488 | 423,893 |
| Trade receivable - related party | 16,507 | 11,855 | 21,958 |

The ageing of trade receivable and related impairment of receivable is included in note 5.

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

## 14. FINANCIAL MANAGEMENT (Continued)

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

The capital structure of the Group consists of equity and debt comprising share capital, the statutory reserve, retained earnings, the foreign currency translation reserve and loans. The Group is not subject to any externally imposed capital requirements.

**Fair value of financial instruments:**
The directors consider that the carrying values of the financial instruments reported in the statement of financial position approximate their fair values.

## 15. CONTINGENCY AND COMMITMENTS

The Group had the following contingencies and commitments:

| | June 30, 2017 SR '000 (Un-audited) | December 31, 2016 SR '000 (Audited) |
|---|---|---|
| Letters of credit | 44,143 | 15,560 |
| Letters of guarantee and others | 3,538 | 4,867 |
| Capital commitments against purchase of property, plant and equipment | 7,077 | 31,208 |

## 16. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved by the Board of Directors for issuance on July 31, 2017.