TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH INDEPENDENT AUDITOR'S REPORT

TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Takween Advanced Industries - a Saudi Joint Stock Company (the "Company") and its subsidiaries (collectively referred as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter listed below, our description on how our audit have addressed this matter is set below:

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INDEPENDENT AUDITOR'S REPORT (Continued)

Key Audit Matters (Continued)

The key audit matter	How the matter was addressed
1- Adoption of IFRS 9– "Financial instruments" (IFRS 9) and impact on the impairment allowance of financial assets	
The Group has adopted IFRS 9 "Financial instruments" effective January 1, 2018. This standard replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The basis of classification depends on the business model based on which the financial assets are managed together with its relevant contractual cash flow characteristics. IFRS 9 replaces the "incurred loss" model in the IAS 39 with an "Expected Credit Loss" model (ECL) for the calculation of impairment allowance for financial assets. We consider this matter as a key audit matter due to level of significant judgement and assumption used by management in the calculation of impairment of financial assets based on its ECL model. Refer to note 4 to the consolidated financial statements for the accounting policy related to impairment allowance of financial instruments.	We have performed the following procedures for assessing the impact on the impairment allowance of financial assets on adaption of IFRS 9: • Evaluated the appropriateness of the application of expected credit loss model prepared, by the Management of the Company, for the relevant financial assets by understanding the nature of the financial assets and comparing the application to the requirements of the standard, • Verified the data inputs in assessing the reasonableness of the probability of defaults (PDs) against source documents and information, • Tested key assumptions by comparing to the historical data, and • Reviewed the adequacy of the Group's disclosures as presented in the accompanying consolidated financial statements in accordance with the applicable accounting standards.
2- Impairment of non-current assets	
Non-current assets as of December 31, 2018 amounted to SR 1,388 million (2017: SR 1,463 million) including goodwill of SR 323.58 million (2017: SR 323.58 million) which was recognized on the acquisition of Saudi Plastic Packaging System (formerly Savola Packaging Systems Company Limited) in December 31, 2014. Management conducts impairment review on an annual basis to assess whether there is any potential impairment. These reviews are made using valuation methods to determine the expected recoverable amounts of these assets. Such methods include assumptions related to future sales volume, prices, operating assets, growth rates, terminal value and other related assets. We considered this as a key audit matter due to significant judgement and key assumptions involved in the impairment assessment process. Refer note 4 to the consolidated financial statements for the accounting policy related to impairment of non-current assets.	We have performed the following procedures for assessing the impairment of non-current assets: • Evaluated key assumptions used by the management. • Reviewed the independent specialist valuation review report for the reasonableness of the valuation methodology of goodwill and other tangible assets analysis prepared by management. As part of the review, assessed the reasonableness of key management assumptions in respect of estimated future cash flows, growth and discount rates and assessed the sensitivity analysis on key assumptions, • Compared key assumptions against historic trends, business plans and industry benchmarks as applicable. Additionally, we reviewed and assessed the future business plans both from internal and external perspectives, and compared forecast to historical trends, • Checked the accuracy and completeness of the information produced by management, that was used as the basis of impairment assessment, and • Considered the adequacy of the group's disclosures as presented in the accompanying financial statements in accordance with applicable accounting standard.

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INDEPENDENT AUDITOR'S REPORT (Continued)

Other Information included in the Group's 2018 Annual Report
Management is responsible for the other information. The other information comprises the information included in the Group's annual report, other than the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the annual report, and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Company's By-laws and the applicable requirements of Company's regulations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's responsibilities for the audit of the Consolidated Financial Statements (Continued)

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulation for Companies in the Kingdom of Saudi Arabia and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

Al-Bassam & Co.
Allied Accountants

Ibrahim Ahmed Al Bassam
License No.337
Al Khobar,

10 Rajab, 1440H
March 17, 2019

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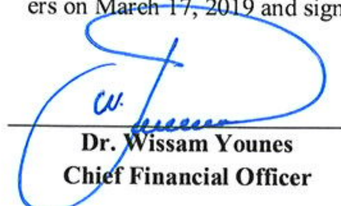
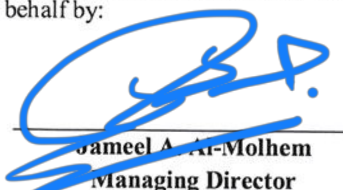
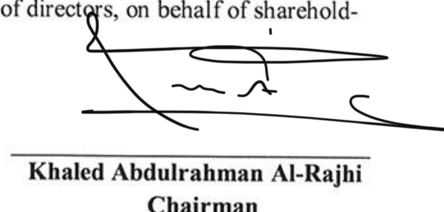
TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	Note	December 31, 2018 SR '000	December 31, 2017 SR '000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	**1,052,847**	1,126,325
Intangible assets	7	**11,763**	12,965
Goodwill	8	**323,582**	323,582
Total non-current assets		**1,388,192**	1,462,872
CURRENT ASSETS			
Inventories	9	**282,400**	315,522
Trade receivables	10	**355,505**	293,450
Prepaid expenses and other assets	11	**69,642**	58,459
Investments held at amortized cost	12	-	6,958
Cash and cash equivalents	13	**9,943**	41,583
Total current assets		**717,490**	715,972
TOTAL ASSETS		**2,105,682**	2,178,844
EQUITY AND LIABILITIES			
EQUITY			
Share capital	14.1	**950,000**	950,000
Statutory reserve	14.2	-	29,419
Other reserves	14.3	**(49,495)**	(53,415)
Accumulated losses		**(216,977)**	(186,216)
Total equity		**683,528**	739,788
LIABILITIES			
Non-current liabilities			
Medium and long term loans	15.1	**277,215**	356,822
Employee benefits	16	**36,429**	40,518
Total non-current liabilities		**313,644**	397,340
Current liabilities			
Current portion of medium and long term loans	15.1	**223,370**	96,684
Short term loans	15.2	**575,671**	698,788
Trade payables and other liabilities	17	**309,469**	246,244
Total current liabilities		**1,108,510**	1,041,716
Total liabilities		**1,422,154**	1,439,056
TOTAL EQUITY AND LIABILITIES		**2,105,682**	2,178,844

The accompanying consolidated financial statements were authorized for issue by board of directors, on behalf of shareholders on March 17, 2019 and signed on their behalf by:

Dr. Wissam Younes
Chief Financial Officer

Jameel A. Al-Molhem
Managing Director

Khaled Abdulrahman Al-Rajhi
Chairman

The accompanying notes 1 through 31 form an integral part of these consolidated financial statements.

TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	December 31, 2018 SR '000	December 31, 2017 SR '000
Revenue	19, 24	**1,343,760**	1,230,492
Cost of revenue	20, 24	**(1,215,383)**	(1,168,157)
Gross profit		**128,377**	62,335
Administrative expenses	21	**(61,591)**	(90,740)
Selling, marketing and distribution expenses	22	**(60,403)**	(89,200)
Research expenses		**(1,571)**	(1,349)
Operating income (loss)		**4,812**	(118,954)
Finance charges		**(59,372)**	(51,666)
Other income, net	23	**8,674**	7,953
Loss before zakat and income tax		**(45,886)**	(162,667)
Zakat and income tax	18.5	**6,156**	(5,568)
Net loss for the year		**(39,730)**	(168,235)
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified to statement of profit or loss			
Remeasurement gain (loss) on employee benefits	16	**4,364**	(6,102)
Item that may be reclassified to statement of profit or loss			
Exchange differences on translation of foreign operation		**(444)**	1,166
Other comprehensive income (loss) for the year		**3,920**	(4,936)
Total comprehensive loss for the year		**(35,810)**	(173,171)
Loss per share (SR) based on loss for the year attributable to shareholders of the company			
Basic and diluted loss per share	28	**(0.42)**	(1.77)

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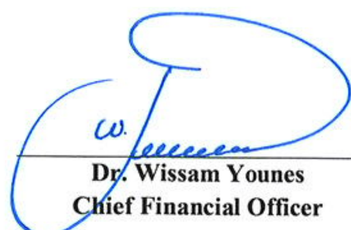

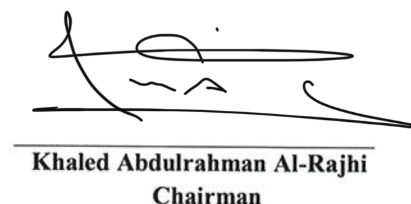

Dr. Wissam Younes **Chief Financial Officer**	**Jameel A. Al-Molhem** **Managing Director**	**Khaled Abdulrahman Al-Rajhi** **Chairman**

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TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	Share capital SR '000	Statutory reserve SR '000	Other reserves SR '000	Accumulated losses SR '000	Total SR '000
Balance as at January 1, 2017	950,000	29,419	(48,479)	(17,981)	912,959
Net loss for the year	-	-	-	(168,235)	(168,235)
Other comprehensive loss	-	-	(4,936)	-	(4,936)
Total comprehensive loss	-	-	(4,936)	(168,235)	(173,171)
Balance as at December 31, 2017	950,000	29,419	(53,415)	(186,216)	739,788
Balance as at January 1, 2018	**950,000**	**29,419**	**(53,415)**	**(186,216)**	**739,788**
Adjustment on adoption of IFRS 9 (note 4.3)	**-**	**-**	**-**	**(20,450)**	**(20,450)**
Balance as at January 1, 2018 (after adjustment)	**950,000**	**29,419**	**(53,415)**	**(206,666)**	**719,338**
Transfer (note 14.2)		**(29,419)**	**-**	**29,419**	**-**
Net loss for the year	**-**	**-**	**-**	**(39,730)**	**(39,730)**
Other comprehensive income	**-**	**-**	**3,920**	**-**	**3,920**
Total comprehensive income (loss)			**3,920**	**(39,730)**	**(35,810)**
Balance as at December 31, 2018	**950,000**	**-**	**(49,495)**	**(216,977)**	**683,528**

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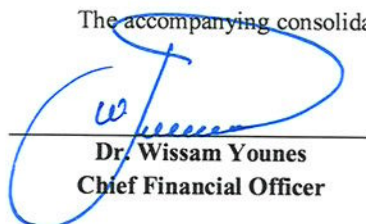
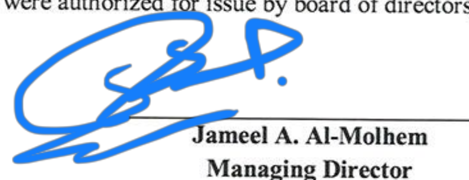
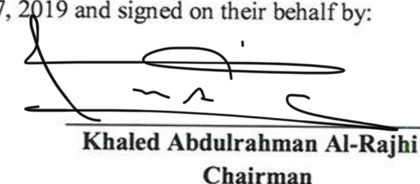


Dr. Wissam Younes
Chief Financial Officer



Jameel A. Al-Molhem
Managing Director



Khaled Abdulrahman Al-Rajhi
Chairman

The accompanying notes 1 through 31 form an integral part of these consolidated financial statements.

TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	December 31, 2018 SR '000	December 31, 2017 SR '000
OPERATING ACTIVITIES		
Net loss for the year	**(39,730)**	(168,235)
Adjustments for:		
Depreciation	**93,285**	123,039
Amortization of intangible assets	**3,386**	2,875
(Reversal) provision for zakat and income tax	**(6,156)**	5,568
Write off of property, plant and equipment	**3,430**	414
Interest income on investments held at amortized costs	**(634)**	-
Allowance for inventories, net	**(852)**	16,740
Allowance for impairment of trade receivables	**(2,000)**	13,456
Finance charges	**59,372**	51,666
Employee benefits	**5,189**	6,704
	115,290	52,227
Movement in working capital:		
Inventories	**33,987**	29
Trade receivables	**(80,476)**	36,892
Prepaid expenses and other assets	**(11,183)**	19,318
Trade payables and other liabilities	**71,058**	(3,690)
Cash from operations	**128,676**	104,776
Finance charges paid	**(58,135)**	(50,429)
Zakat and income tax paid	**(1,668)**	(5,535)
Employee benefits paid	**(6,151)**	(11,690)
Net cash from operating activities	**62,722**	37,122
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(23,341)**	(42,110)
Additions to intangible assets	**(2,184)**	(1,617)
Investments	**-**	(6,958)
Proceeds from investments	**6,958**	-
Interest income received on investments held at amortized cost	**634**	-
Net cash used in investing activities	**(17,933)**	(50,685)
FINANCING ACTIVITIES		
Change in short term loans	**26,883**	88,336
Change in medium and long term loans	**(102,921)**	(77,300)
Net cash (used in) from financing activities	**(76,038)**	11,036

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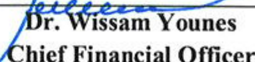
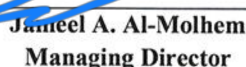
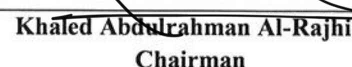


Dr. Wissam Younes
Chief Financial Officer



Jameel A. Al-Molhem
Managing Director



Khaled Abdulrahman Al-Rajhi
Chairman

The accompanying notes 1 through 31 form an integral part of these consolidated financial statements.

TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2018

	December 31, 2018 SR '000	December 31, 2017 SR '000
Net change in cash and cash equivalents	**(31,249)**	(2,527)
Cash and cash equivalent at the beginning of the year	**41,583**	43,269
Foreign currency translation reserve	**(391)**	841
Cash and cash equivalents at the end of the year	**9,943**	41,583

NON – CASH TRANSACTIONS		
Allowance for impairment of trade receivables on adoption of IFRS 9	**20,450**	-
Remeasurement loss (gain) on employee benefits	**(4,364)**	6,102
Transfer from property, plant and equipment to intangible assets	**-**	391
Transfer of short term loan to medium and long term loan	**150,000**	-

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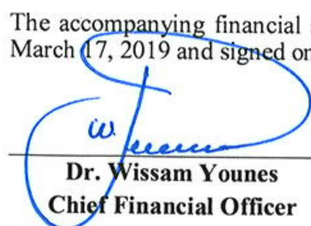
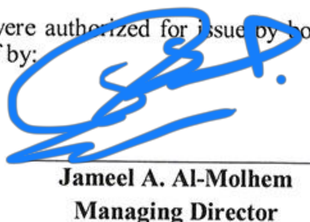
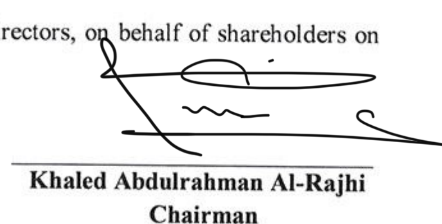


Dr. Wissam Younes
Chief Financial Officer



Jameel A. Al-Molhem
Managing Director



Khaled Abdulrahman Al-Rajhi
Chairman

The accompanying notes 1 through 31 form an integral part of these consolidated financial statements.

1. ORGANIZATION AND PRINCIPAL 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 Company's registered office is located at Al Khobar, Kingdom of Saudi Arabia.

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.

As at December 31, 2018, the current liabilities of the Group exceeded its current assets by SR 391 million (December 31, 2017: SR 325.7 million) mainly on account of short term loans and current portion of medium and long term loans amounting to SR 575.7 million and SR 223.4 million, respectively (December 31, 2017: SR 698.8 million and SR 96.7 million, respectively). Additionally, as mentioned in note 15, the Group was in breach of its loans' financial covenants as of December 31, 2018. The Group is managing its future cash flow requirements through its cash flows from operations and utilization of its unavailed credit facilities. Further, the management of the Company is currently in the process of negotiating for new loans in order to resolve the breach of covenants. Management of the Company believes that it would be successful in renewing these facilities as they become due and avail new facilities as required. Accordingly, these consolidated financial statements have been prepared on going concern basis and loans are continued to be classified as per their original terms of repayment except for long term portion of SIDF loan, which long term portion of the loan has been reclassified to short term (note 15).

2. STRUCTURE OF THE GROUP

The consolidated financial statements as at December 31, 2018 include the financial statements of the Company and its following subsidiaries (collectively referred to as the "Group"):

Name of consolidated subsidiary	Effective ownership	
	2018	2017
Saudi Plastic Packaging Systems ("Saudi Packaging")	**100%**	100%
Advanced Fabrics Factory Company ("SAAF")	**100%**	100%
Al-Sharq Company for Plastic Industries Limited ("Al-Sharq")	**100%**	100%
Ultra Pak Manufacturing Company ("Ultra Pak")	**100%**	100%
New Marina for Plastic Industries Company (S.A.E.) ("New Marina")	**100%**	100%

During 2017, as part of the restructuring of the Group's operations, the shareholders of the Group resolved to transfer the net assets in one of its branch i.e. "Plastico" (A branch related to Takween) to Saudi Plastic Packaging Systems ("Saudi Packaging") effective January 1, 2017. The book value of net assets transferred was SR 75.23 million. Also during 2017, the whole operation in one of the subsidiary "Ultra Pak" was transferred to Saudi Plastic Packaging Systems ("Saudi Packaging") effective January 1, 2017. The book value of net assets transferred was SR 104.63 million.

The above transfer had no effect on the Group financial statements.

2. STRUCTURE OF THE GROUP (Continued)

Summary of net assets of Plastico and Ultra Pak transferred during 2017 is as follows:

	Plastico	Ultra Pak	**Total**
	SR '000	SR '000	**SR '000**
ASSETS			
Non-current assets			
Property, plant and equipment	219,965	17,814	**237,779**
Intangible assets	1,848	2,167	**4,015**
Total non-current assets	221,813	19,981	**241,794**
Current assets			
Inventories	81,731	-	**81,731**
Trade receivables	69,076	12,503	**81,579**
Prepaid expenses and other assets	7,289	1,277	**8,566**
Due from related parties	173,665	101,793	**275,458**
Cash and cash equivalents	6,673	5,272	**11,945**
Total current assets	338,434	120,845	**459,279**
TOTAL ASSETS	560,247	140,826	**701,073**
LIABILITIES			
Non-current liabilities			
Medium and long term loan	-	5,034	**5,034**
Employee benefits	6,089	2,449	**8,538**
Total non-current liabilities	6,089	7,483	**13,572**
Current liabilities			
Current portion of medium and long term loans	-	2,356	**2,356**
Short term loan	200,189	20,000	**220,189**
Trade payables and other liabilities	83,537	3,685	**87,222**
Due to related parties	195,054	-	**195,054**
Zakat payable	150	2,671	**2,821**
Total current liabilities	478,930	28,712	**507,642**
Total liabilities	485,019	36,195	**521,214**
NET ASSETS TRANSFERRED AMONG THE GROUP COMPANIES	75,228	104,631	**179,859**

3. BASIS OF PREPARATION

3.1 Statement of compliance

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

The Capital Market Authority (CMA), the Government Organization in Kingdom of Saudi Arabia regulating the financial, legal and administrative matters for listed companies, 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 these circumstances, the Group cannot avail these options for current financial year.

3.2 Preparation of the consolidated financial statements

The consolidated financial statements have been prepared under the historical cost convention except for the defined benefit obligations which are recognized at the present value of future obligation using the projected unit credit method.

The preparation of consolidated financial statements in conformity with IFRS required management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts in the consolidated financial statements. These areas that are significant to the consolidated financial statements are disclosed in note 5.

3.3 New Standards, Amendments to Standards and Interpretations

The Group has adopted IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers from January 1, 2018. The impact of adoption of IFRS 15 is not material for the Group. The impact of application of IFRS- 9 has been fully explained in note 4.3a. A number of other new standards, amendments to standards are effective from January 1, 2018 but they do not have a material effect on the Group's consolidated financial statements and hence not presented in these consolidated financial statements.

3.4 New standards, amendments and revised IFRS issued but not yet effective

Following are the new standards and amendments to standards which are effective for annual periods beginning after January 1, 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

New and revised IFRSs	Description	Effective for annual periods beginning on or after
IFRS 16	Leases	January 1, 2019
IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
IAS 28	Long-term Interests in Associates and Joint Ventures	January 1, 2019
IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
IFRS 9	Amendments - Prepayment features with negative compensation & modification of financial liabilities	January 1, 2019

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 may have no material impact on the consolidated financial statements of the Group in the period of initial application except for impact of IFRS 16 – Leases as explained below.

IFRS - 16 may have an impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its leases. However, it is not practicable at this stage to provide a reasonable estimate of effects of the application of IFRS 16 until the Group performs a detailed review.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies applied by the Group:

4.1 Basis of Consolidation

The consolidated financial statements comprise those of Takween Advanced Industries and of its subsidiaries (the "Group") as detailed in note 2. Control is achieved when the Group:

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

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

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

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

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

Consolidated statement of profit or loss and each component of other comprehensive income are attributed to the shareholders of the Group. Total comprehensive income of subsidiary is attributed to the shareholders of the Company.

When necessary, adjustments are made to the financial statements of subsidiaries to bring its 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.

4.1.1 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.

When the Group loses control of a subsidiary, a gain or loss is recognized in the consolidated statement of profit or loss and other comprehensive 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 consolidated statement of profit or loss and other comprehensive 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 IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 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 IFRS 9 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognized in the consolidated statement of profit or loss and other comprehensive 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 the consolidated statement of profit or loss and other comprehensive 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 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 consolidated statement of profit or loss and other comprehensive income.

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 consolidated statement of profit or loss and other comprehensive income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Changes in accounting policies

The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 and IFSR 15 are set as follows:

a) IFRS 9 Financial instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

Classification and measurement of financial assets and financial liabilities

The standard eliminates the existing IAS 39 categories of held-to-maturity, loan and receivables and available-for-sale. The classification of financial assets under IFRS 9 is generally based on the business model in which the financial asset is managed together with its relevant contractual cash flow characteristics. IFRS 9 largely retains the existing requirements in IAS 39 for classification and measurement of financial liabilities.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied under the modified retrospective approach.

Classification of financial assets

Under IFRS 9, on initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). However, the Group as of the reporting date only holds financial assets measured at amortized cost.

Financial asset at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial asset at fair value through other comprehensive income (FVOCI)

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (OCI). Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flow represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI).

Financial asset at fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Changes in accounting policies (Continued)

a) IFRS 9 Financial instruments (Continued)

De-recognition

Financial assets
The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Interest Rate (EIR).

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model associated with its financial assets. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The impairment methodology is generally dependent on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach as required by IFRS 9.

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Impairment allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Trade receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. An increase of SR 20.45 million in the allowance for impairment on these receivables was recognized on transition to IFRS 9. The increase in allowance resulted in an adjustment to accumulated losses at January 1, 2018.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Changes in accounting policies (Continued)

a) IFRS 9 Financial instruments (Continued)

Impact of changes in accounting policies due to adoption of new standard

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9:

January 1, 2018

	Measurement category IAS 39	Measurement category IFRS 9	Original carrying value under IAS 39	Adjustments	New carrying value under IFRS 9
			SR '000	SR '000	SR '000
Financial assets					
Trade receivables	Amortized cost (Loans and receivables	Amortized cost	293,450	(20,450)	273,000
Other receivables	Amortized cost (Loans and receivables	Amortized cost	42,868	-	42,868
Investments held at amortized cost	Amortized cost (Held to maturity)	Amortized cost	6,958	-	6,958
Cash and bank balances	Amortized cost (Loans and receivables	Amortized cost	41,583	-	41,583
			384,859	(20,450)	364,409
Financial liabilities					
Trade payables and other liabilities	Amortized cost	Amortized cost	235,693	-	235,693
Short term loans	Amortized cost	Amortized cost	698,788	-	698,788
Medium and long term loans	Amortized cost	Amortized cost	453,506	-	453,506
			1,387,987	-	1,387,987

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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 bankruptcy of the Group or the counterparty.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Changes in accounting policies (Continued)

b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Group recognizes revenue when a performance obligation is satisfied, i.e. customer obtains control of the goods at a point of time which is on delivery and acknowledgement of goods by the customer, and this is in line with the requirements of IFRS 15. Accordingly, there were no material effect of adopting IFRS 15 "Revenue from contracts with customers" on the recognition of revenue of the Group.

The details of the new significant accounting policies in relation to the Group's sales of goods are set out below.

The company has different types of products i.e. Disposable polystyrene cups, lids, Non-woven fabrics and other plastic related products. Customers obtain control of products when the goods are delivered to and have been accepted at their premises. Invoices are generated and revenue is recognized at that point in time. Credit invoices are usually payable within 30 - 120 days. Invoice is generated and recognized as revenue net-off applicable discounts which relate to the items sold.

Transition

Changes in accounting policies resulting from the adoption of IFRS 15 have been applied under modified retrospective approach. However, there were no material effect of adopting IFRS 15 on the date of initial application.

4.4 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.

4.5 Administrative and selling, marketing and distribution expenses

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

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

4.6 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 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 at weighted average cost basis; cost comprises all costs of purchases and other costs incurred in bringing the inventories to their present location and condition.
- Finished goods and work-in-process at 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 (NRV) 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. Allowance is made for slow moving inventories.

4.8 Property, plant and equipment (PPE)

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.

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:

	Percentage
Buildings and leasehold 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.

4.8.1 Capitalization of costs under PPE

The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates,
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation incurred either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 Property, plant and equipment (PPE) (Continued)

4.8.1 Capitalization of costs under PPE (Continued)

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, plant 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.

4.8.2 Derecognition of property, plant and equipment

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

4.8.3 Capital Spare Parts (CSP)

The Group classifies CSPs into critical spare parts (strategic spare parts) and general spare parts using the below guidance:

- A critical spare part is one that is on "stand-by", i.e. probable to be a major item / part critical to be kept on hand to ensure uninterrupted operation of production. They would normally be used only due to a breakdown, and are not generally expected to be used on a routine basis. Depreciation on critical spares commences immediately on the date of purchase.
- General spare parts are other major spare parts not considered critical and are bought in advance due to planned replacement schedules (in line with prescribed maintenance program) to replace existing major spare parts with new parts that are in operation. Such items are considered to be "available for use" only at a future date, and hence depreciation commences when it is installed as a replacement part. The depreciation period for such general capital spares is over the lesser of its useful life, and the remaining expected useful life of the equipment to which it is associated.

4.9 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 (note 4.2).

4.10 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 except for goodwill which is tested for impairment annually. 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Impairment of tangible and intangible assets (Continued)

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 profit or loss and other comprehensive income.

When an impairment loss on an intangible asset other than goodwill is 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 profit or loss and other comprehensive income.

4.11 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.

4.12 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.

4.13 Foreign currency translation

4.13.1 Presentation currency

The accompanying consolidated 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).

4.13.2 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 profit and loss and other comprehensive 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 profit or loss on repayment of the monetary items.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Foreign currency translation (Continued)

4.13.2 Transaction and balances (Continued)

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 profit or loss. 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 profit or loss. 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 profit or loss and other comprehensive income.

4.14 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 MD 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 MD 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.

4.15 Employee benefits

4.15.1 Short term obligation

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations within accruals in the consolidated statement of financial position.

4.15.2 Employees' end-of-service benefits (EOSB)

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The liability recognized in consolidated statement of financial position in respect of employee benefits is the present value of defined benefits obligation at the end of reporting period.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

Defined benefit costs are categorized as follows:

Service cost
Service costs includes current service cost and past service cost are recognized immediately in consolidated statement of profit or loss.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in consolidated statement of profit or loss and other comprehensive income as past service costs.

Interest cost
Interest cost is calculated by applying the discount rate to at the beginning of the period to the net defined benefit liability. This cost is included in employee benefit expense in the consolidated statement of profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Employee benefits (Continued)

4.15.2 Employees' end-of-service benefits (EOSB) (Continued)

Re-measurement gains or losses
Re-measurement gains or losses arising from experience adjustments and other changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

4.16 Zakat and income tax

The Group is subject to the regulations of the General Authority of Zakat and Income 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.

4.17 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

4.18 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.

4.18.1 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.

4.19 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.

4.20 Earnings per share

4.20.1 Basic earnings per share
Basic earnings per share is calculated by dividing:

- the profit attributable to shareholders of the Group, excluding any costs of servicing equity other than ordinary shares, and
- by the weighted average number of ordinary shares outstanding during the financial period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Earnings per share (Continued)

4.20.2 Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

4.21 Borrowing cost

Borrowing cost directly attributable to the 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 consolidated statement of profit or loss in the period in which they are incurred.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated 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 consolidated 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.

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

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 statement of financial position 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 in 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 statement of financial position date and disclosed in the Group's financial statements under contingent liabilities.

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

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 profit or loss. Impairment losses recognized on intangible assets are not reversible.

Estimation of defined benefit obligation

The cost of defined benefit obligation and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate and future salary increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

6. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2018 is as follows:

	Buildings and leasehold improvements SR '000	Plant, machinery and equipment SR '000	Vehicles SR '000	Furniture, fixtures and office equipment SR '000	Capital work in progress ("CWIP") SR '000	Total SR '000
Year ended December 31, 2018						
Cost:						
Balance at January 1, 2018	337,246	1,514,900	8,396	21,089	12,916	1,894,547
Additions	**3,548**	**9,870**	-	**292**	**9,631**	**23,341**
Transferred from CWIP	**278**	**4,595**	-	**554**	**(5,427)**	-
Write off	-	**(61,857)**	**(5)**	**(36)**	-	**(61,898)**
Foreign currency translation	**(57)**	**(383)**	**(2)**	**(12)**	**(3)**	**(457)**
Balance at December 31, 2018	**341,015**	**1,467,125**	**8,389**	**21,887**	**17,117**	**1,855,533**
Accumulated depreciation:						
Balance at January 1, 2018	55,623	693,643	7,075	11,881	-	768,222
Charge for the year	**9,363**	**80,851**	**325**	**2,746**	-	**93,285**
Write off	-	**(58,428)**	**(5)**	**(35)**	-	**(58,468)**
Foreign currency translation	**(8)**	**(331)**	**(2)**	**(12)**	-	**(353)**
Balance at December 31, 2018	**64,978**	**715,735**	**7,393**	**14,580**	-	**802,686**
Net book value:						
At December 31, 2018	**276,037**	**751,390**	**996**	**7,307**	**17,117**	**1,052,847**

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

The movement of property, plant and equipment for the year ended December 31, 2017 is as follows:

	Buildings and leasehold improvements SR '000	Plant, machinery and equipment SR '000	Vehicles SR '000	Furniture, fixtures and office equipment SR '000	Capital work in progress ("CWIP") SR '000	Total SR '000
Year ended December 31, 2017						
Cost:						
Balance at January 1, 2017	333,955	1,450,380	8,517	20,939	41,548	1,855,339
Additions	3,146	19,212	162	2,079	17,511	42,110
Transferred from CWIP	266	45,430	407	51	(46,154)	-
Write off	(321)	(1,441)	(677)	(1,463)	-	(3,902)
Transfer to intangible assets (note 7)	-	-	-	(559)	-	(559)
Disposals	-	-	(20)	-	-	(20)
Foreign currency translation	200	1,319	7	42	11	1,579
Balance at December 31, 2017	337,246	1,514,900	8,396	21,089	12,916	1,894,547
Accumulated depreciation:						
Balance at January 1, 2017	45,508	584,913	6,758	10,544	-	647,723
Charge for the year	10,315	109,105	1,007	2,612	-	123,039
Write off	(224)	(1,441)	(677)	(1,146)	-	(3,488)
Transfer to intangible assets (note 7)	-	-	-	(168)	-	(168)
Disposals	-	-	(20)	-	-	(20)
Foreign currency translation	24	1,066	7	39	-	1,136
Balance at December 31, 2017	55,623	693,643	7,075	11,881	-	768,222
Net book value:						
At December 31, 2017	281,623	821,257	1,321	9,208	12,916	1,126,325

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's buildings and production facilitates in Al- Hassa are constructed on a parcel of land owned by an affiliate and the building of Ayoun plant is constructed on land leased from Saudi Industrial Property Authority (MODON) for a period of 20 years commencing from Muharram 27, 1436H (November 24, 2014).

SAAF's buildings and production facilitates are constructed on a parcel of land in Al Hassa owned by an affiliate and a piece of land leased from Saudi Arabian Oil Company in the Western Province of Saudi Arabia.

Under the terms of a land lease agreement with Jeddah Industrial City ("JIC"), Saudi Packaging has various renewable operating leases upon which its production facilities are located. Annual lease and service charge payments to JIC are nominal.

Saudi Packaging has prepaid operating lease payments which principally represent the amount paid by the subsidiary to acquire the rights to lease land from a government agency for its ongoing expansion projects and is amortized over the period of 25 years. Annual lease and service charge payments to the government agency are nominal. As at December 31, 2018, the balance amounts to SR 6.7 million (2017: SR 7.1 million) is included under intangible assets (note 7).

At December 31, 2018, certain property, plant and equipment were pledged as collateral to certain credit facilities. Refer note 15.

Capital work-in-progress at December 31, 2018 is principally related to various additions to the production facilities and other improvements which were under progress at the year end.

Depreciation for the year has been allocated under the following:

	Note	December 31, 2018 SR '000	December 31, 2017 SR '000
Cost of revenue	20	90,574	121,015
Administrative expenses	21	2,108	617
Selling, marketing and distribution expenses	22	603	1,407
		93,285	123,039

7. INTANGIBLE ASSETS

	December 31, 2018 SR '000	December 31, 2017 SR '000
Cost	**26,958**	24,774
Less: accumulated amortization	**15,195**	11,809
Net book value	**11,763**	12,965

	December 31, 2018 SR '000	December 31, 2017 SR '000
Reconciliation of net book value		
Cost:		
January 1	**24,774**	22,598
Addition	**2,184**	1,617
Transfer from property, plant and equipment (note 6)	**-**	559
December 31	**26,958**	24,774
Amortization:		
January 1	**11,809**	8,766
Charge for the year	**3,386**	2,875
Transfer from property, plant and equipment (note 6)	**-**	168
December 31	**15,195**	11,809
Net book value	**11,763**	12,965

8. GOODWILL

The Company entered into an agreement with Savola Group on December 30, 2014, for the acquisition of Saudi Plastic Packaging Systems ("Saudi Packaging") (formerly Savola Packaging Systems Company Limited), a wholly owned subsidiary of Savola Group, along with two wholly owned subsidiaries of Saudi Packaging (Al-Sharq Company for Plastic Industries Limited ("Al-Sharq") and New Marina for Plastic Industries Company ("New Marina") for a total purchase price of SR 910 million. As a result of this business acquisition and control acquired through sale agreement, the Company consolidated newly acquired subsidiaries with effect from January 1, 2015. In 2015, Council of Competition Protection approved the proposed acquisition of Saudi Packaging and consequently, the consideration of SR 910 million was paid in full. A goodwill of SR 323.58 million was recognized on the acquisition that represented the excess consideration paid over the net book value of net assets acquired, after carrying out valuation of the assets and liabilities as per the requirements.

The fair value of the assets acquired and liabilities assumed under business combination, pursuant to final purchase price allocation are as follows:

The goodwill arising on acquisitions is follows:

	December 31, 2018 SR '000	December 31, 2017 SR '000
Fair value of consideration paid	**910,000**	910,000
Less: fair value of identifiable net assets acquired	**586,418**	586,418
Goodwill	**323,582**	323,582

8. GOODWILL (Continued)

Goodwill is subject to annual impairment testing. For the purpose of testing goodwill impairment, goodwill is allocated to each of the Group's cash generating units that are expected to benefit from the synergies associated with the acquisition. The aggregation of assets for identifying the cash generated unit was changed in 2017 following the restructuring of the Group operations as explained in note 2. The recoverable amount of the cash generating unit is its value in use.

In arriving to the value in use, management has based its cash flow forecast covering a five-year period. Management used a cumulative average growth rate (CAGR) in revenue of 5.8% over a period of five years, and a discount rate of 11.8% and terminal growth rate of 3% as relevant to each cash generating unit based on the weighted average cost of capital in addition to other assumptions associated with selling prices and raw material cost.

Management has performed an impairment assessment review of the goodwill amounting to SR 323.5 million as at December 31, 2018. The assessment among other factors assumes increase in revenue mainly resulting from increase in sales quantity in future years. The outcome of these assumptions is highly dependent on the success of future operations as estimated by management and achieving its plans in future. The result of the goodwill impairment test performed by the group's management revealed no indication of goodwill impairment. The valuation analysis as prepared by management was reviewed by third party consultant who stated in his review report that the valuation methodology adopted by management to estimate the value in use is considered to be adequate. Management is confident of its ability to meet its future business plan and believes that the carrying value of its assets including its goodwill will not exceed its recoverable amount. Accordingly, no impairment is recorded for goodwill.

9. INVENTORIES

	Note	**December 31, 2018 SR '000**	December 31, 2017 SR '000
Finished goods		**86,903**	94,753
Raw and packaging materials and work in progress		**172,018**	207,674
Spare parts		**47,724**	38,205
		306,645	340,632
Allowance for inventories	**9.1**	**(24,245)**	(25,110)
		282,400	315,522

9.1 Movement in the allowance for inventories:

	December 31, 2018 SR '000	December 31, 2017 SR '000
Opening balance	**25,110**	8,349
(Reversal) Allowance / write down for the year	**(852)**	16,740
Foreign currency translation	**(13)**	21
Closing balance	**24,245**	25,110

10. TRADE RECEIVABLES

	Note	**December 31, 2018 SR '000**	December 31, 2017 SR '000
Trade receivables		**389,678**	310,334
Trade receivables – related parties	**24**	**22,241**	21,202
Due from a related party	**24**	**93**	-
	10.2	**412,012**	331,536
Allowance for impairment for trade receivables	**10.1**	**(56,507)**	(38,086)
		355,505	293,450

10. TRADE RECEIVABLES (Continued)

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

	December 31, 2018	December 31, 2017
	SR '000	SR '000
Opening balance	**38,086**	24,593
Impact of IFRS 9 adoption (note 4.3)	**20,450**	-
	58,536	24,593
(Reversal) Addition for the year	**(2,000)**	13,456
Foreign currency translation	**(29)**	37
Closing balance	**56,507**	38,086

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

	Estimated credit loss rate	**December 31, 2018**		December 31, 2017	
		Gross SR '000	**Impairment SR '000**	Gross SR '000	Impairment SR '000
Not past due	**0.24%**	**199,559**	**479**	205,114	-
Past due 1-90 days	**0.45%-4.94%**	**134,272**	**5,371**	68,662	-
Past due 91-180 days	**7.71% - 22.27%**	**24,526**	**3,066**	19,975	-
Above 180 days	**29.12% - 100%**	**53,655**	**47,591**	37,785	38,086
		412,012	**56,507**	331,536	38,086

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The Group does not hold any collateral over impaired trade receivables. Allowance for impairment of trade receivables is calculated based on the ageing profile and history.

11. PREPAID EXPENSES AND OTHER ASSETS

	December 31, 2018	December 31, 2017
	SR '000	SR '000
Rebate receivables	**27,602**	34,747
Advances to suppliers	**20,341**	7,641
Value added tax	**8,803**	-
Prepaid expenses	**5,019**	7,950
Margin against bank guarantees and letters of credit	**833**	3,499
Other receivables	**7,044**	4,622
	69,642	58,459

12. INVESTMENT HELD AT AMORTIZED COST

	December 31, 2018	December 31, 2017
	SR '000	SR '000
Investments in treasury bills	**-**	6,958

Investment in treasury bills relates to the purchase of Egyptian treasury bills as of December 2017, by New Marina for Plastic Industries Company, a subsidiary, with a par value amounting to EGP 36 million and an annual interest rate of 18.5% which matured in 2018.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the followings:

	December 31, 2018	December 31, 2017
	SR '000	SR '000
Cash in hand	**225**	276
Cash at bank	**9,718**	41,307
	9,943	41,583

14. EQUITY

14.1 Share capital

	December 31, 2018	December 31, 2017
	SR '000	SR '000
Authorized share capital		
95 million shares of SR 10 each	**950,000**	950,000
Issued, subscribed and fully paid up share capital		
95 million share of SR 10 each	**950,000**	950,000

	December 31, 2018	December 31, 2017
Reconciliation of number of shares outstanding (in "000")		
Opening balance	**95,000**	95,000
Shares issued	**-**	-
Closing balance	**95,000**	95,000

14.2 Statutory reserve

In accordance with Company's By-Laws, the Company is required to transfer 10% of net income each year to a statutory reserve until such reserve equals 30% of its share capital. This reserve is not available for distribution to shareholders. No transfer to statutory reserve has been made during 2018 and 2017 due to the losses incurred.

During the period ended March 31, 2018, the board of directors in their meeting dated March 20, 2018 has recommended to utilize the statutory reserve against accumulated losses, which was later approved by the shareholders in the annual general meeting held on April 17, 2018. Accordingly, the balance of statutory reserve was adjusted against the accumulated losses.

14. EQUITY (Continued)

14.3 Other reserves

	December 31, 2018 SR '000	December 31, 2017 SR '000
Exchange differences on translation of foreign operation	**(51,265)**	(50,821)
Remeasurements of employee benefits	**1,770**	(2,594)
	(49,495)	(53,415)

15. BORROWINGS

15.1 Medium and long term loans

	December 31, 2018 SR "000	December 31, 2017 SR "000
Commercial loan	**409,311**	348,999
Saudi Industrial Development Fund ("SIDF") loans	**91,274**	104,507
	500,585	453,506
Less: current portion	**223,370**	96,684
	277,215	356,822

Commercial loan – The Group entered into Murabaha Facilities Agreement of SR 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 (as illustrated in note 2, the Plastico has been transferred to Saudi Packaging during 2017 as part of group restructuring) and two of its subsidiaries i.e. Advanced Fabrics Factory Company (SAAF) and Ultra Pak Manufacturing Company (Ultrapak) (which has also been transferred to Saudi Packaging during 2017 as part of group restructuring (note 2)) and a corporate guarantee from Al-Othman Holding Company, an affiliate.

During 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, 2017 and June 30, 2018. Accordingly, this loan continues to be classified as current and non-current based on the terms of contract of loan / repayment schedule.

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). During 2017, the loan was transferred to Saudi Packaging as a part of restructuring of the Group operations as explained in note 2. On February 26, 2018, an agreement was signed with SIDF reflecting the transfer of the loan.

15. BORROWINGS (Continued)

SIDF loans (Continued) - 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, 2017. Additionally, the Company has defaulted on the payment due as at December 23, 2018 amounting SR 9 million. Accordingly, as of December 31, 2018, the long term portion of the loan has been reclassified to short term.

15.2 Short term loans

The Group has credit facilities agreements with local commercial banks comprising of overdrafts, short term loans, letters of credit and guarantee etc. Borrowings under the facilities bear financing charges at the prevailing market rates and are secured by demand order note, promissory notes in addition to corporate guarantees from Al-Othman Holding Company, an affiliate, to one local bank.

16. EMPLOYEE BENEFITS

Movement in employees end of service benefits during the year is as follows:

	December 31, 2018 SR '000	December 31, 2017 SR '000
Opening balance as at January 1	**40,518**	38,165
Expense charge for the year	**6,426**	7,941
Re-measurement (gain) loss	**(4,364)**	6,102
Employee benefits paid	**(6,151)**	(11,690)
Closing balance	**36,429**	40,518

Charge to consolidated statement of profit or loss for the year

	December 31, 2018 SR '000	December 31, 2017 SR '000
Current service cost	**5,189**	6,704
Interest cost	**1,237**	1,237
Cost recognized in profit and loss	**6,426**	7,941

Principal actuarial assumptions

	December 31, 2018	December 31, 2017
Discount factor used	**4.60%**	3.00%
Salary increase rate	**4.60%**	4.00%
Rate of employees turnover	**Moderate**	Heavy

16. EMPLOYEE BENEFITS (Continued)

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

	December 31, 2018		December 31, 2017	
	Percentage	**Amount**	Percentage	Amount
		SR '000		SR '000
Discount rate				
Increase	**+0.5%**	**34,979**	+0.5%	37,844
Decrease	**- 0.5%**	**37,899**	- 0.5%	41,390
Expected rate of salary				
Increase	**+0.5%**	**38,027**	+0.5%	41,412
Decrease	**- 0.5%**	**34,931**	- 0.5%	37,806

17. TRADE PAYABLES AND OTHER LIABILITIES

	December 31, 2018	December 31, 2017
	SR '000	SR '000
Trade payables	**235,862**	133,279
Accrued expenses	**64,526**	101,403
Due to related parties (note 24)	**6,363**	1,011
Provision for income tax (note 18.4)	**1,631**	178
Provision for zakat (note 18.3)	**1,087**	10,373
	309,469	246,244

18. ZAKAT AND INCOME TAX

18.1 Zakat status

Zakat returns for the Group companies have been filed independently and paid for all years through 2010 and the zakat certificates have been received till 2010. Zakat return for the Company and its subsidiaries has been filed on a consolidated basis by the Group for 2011 and onwards and zakat certificates have been received till 2016. New Marina is registered in Arab Republic of Egypt and pays income tax according to its local laws and regulations.

The Company and its subsidiaries' assessments have been agreed up to different years. The Company and its subsidiaries' have received additional assessments for certain years and have filed objections against these assessments. Total additional zakat against for which objection have been filed amount to SR 9.4 million, Management is confident of favorable outcome against these assessments. Further, the Group's management is of the view that any zakat charge in respect of newly acquired companies relating to period before acquisition date will be paid by the previous owners. Accordingly, provision for this zakat has not been recognized in these consolidated financial statements.

18.2 Principal elements of zakat base:

	December 31, 2018	December 31, 2017
	SR '000	SR '000
Non-current assets	**1,388,192**	1,462,872
Non-current liabilities	**313,644**	397,340
Spare parts	**47,724**	38,205
Opening shareholders' equity - adjusted	**719,338**	912,959
Net loss before zakat and income tax	**(45,886)**	(162,667)

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

18. ZAKAT AND INCOME TAX (Continued)

18.3 Zakat provision:

	December 31, 2018 SR '000	December 31, 2017 SR '000
January 1	10,373	8,700
(Reversal) provision for the year	(7,795)	5,391
Payments during the year	(1,491)	(3,718)
December 31	1,087	10,373

18.4 Provision for income tax

	December 31, 2018 SR '000	December 31, 2017 SR '000
January 1	178	1,758
Provision for the year	1,639	177
Income tax paid during the year	(177)	(1,817)
Foreign currency translation	(9)	60
December 31	1,631	178

18.5 Current year's zakat and income tax expense

	December 31, 2018 SR '000	December 31, 2017 SR '000
Zakat (reversal) expense	(7,795)	5,391
Income tax expense	1,639	177
	(6,156)	5,568

19. SEGMENTAL REPORTING

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, other plastic related products and others: 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 total assets, total liabilities, revenue, income (loss) before zakat, finance costs and depreciation and amortization by business segment, are as follows:

19. SEGMENTAL REPORTING (Continued)

	Disposable polystyrene cups, lids, other plastic-related products and others	Non-woven Fabrics	Total
	SR '000	SR '000	SR '000
For the year ended December 31, 2018			
External revenue	1,050,815	292,945	1,343,760
Finance cost	48,076	11,296	59,372
Depreciation and amortization	66,913	29,758	96,671
Loss before zakat and income tax	(31,803)	(14,083)	(45,886)
As of December 31, 2018			
Total Assets	1,572,940	532,742	2,105,682
Total Liabilities	1,263,909	158,245	1,422,154
For the year ended December 31, 2018			
Segment Revenues	1,070,495	292,945	1,363,440
Intersegment revenues	(19,680)	-	(19,680)
External revenues	1,050,815	292,945	1,343,760
As of December 31, 2018			
Segment Assets	3,169,976	544,699	3,714,675
Consolidated adjustments	(1,597,036)	(11,957)	(1,608,993)
Total assets	1,572,940	532,742	2,105,682
Segment Liabilities	1,605,016	420,187	2,025,203
Consolidated adjustments	(341,107)	(261,942)	(603,049)
Total liabilities	1,263,909	158,245	1,422,154

	Disposable polystyrene cups, lids, other plastic-related products and others	Non-woven Fabrics	Total
	SR '000	SR '000	SR '000
For the year ended December 31, 2017			
External revenue	998,823	231,669	1,230,492
Finance cost	42,154	9,512	51,666
Depreciation and amortization	92,211	33,703	125,914
Loss before zakat and income tax	(97,057)	(65,610)	(162,667)
As of December 31, 2017			
Total Assets	1,624,744	554,100	2,178,844
Total Liabilities	1,279,509	159,547	1,439,056

19. SEGMENTAL REPORTING (Continued)

	Disposable polystyrene cups, lids, other plastic-related products and others	Non-woven Fabrics	Total
	SR '000	SR '000	SR '000
For the year ended December 31, 2017			
Segment Revenues	1,031,400	231,669	1,263,069
Intersegment revenues	(32,577)	-	(32,577)
External revenues	998,823	231,669	1,230,492
As of December 31, 2017			
Segment Assets	3,278,183	563,812	3,841,995
Consolidated adjustments	(1,653,439)	(9,712)	(1,663,151)
Total assets	1,624,744	554,100	2,178,844
Segment Liabilities	1,641,636	428,282	2,069,918
Consolidated adjustments	(362,127)	(268,735)	(630,862)
Total liabilities	1,279,509	159,547	1,439,056

The Group's operations are conducted in Saudi Arabia, and the Arab Republic of Egypt. Selected financial information

	Kingdom of Saudi Arabia	Arab Republic of Egypt	Total
	SR '000	SR '000	SR '000
For the year ended December 31, 2018			
External revenue	**1,267,479**	**76,281**	**1,343,760**
Finance cost	**58,494**	**878**	**59,372**
Depreciation and amortization	**95,015**	**1,656**	**96,671**
(Loss) income before zakat and income tax	**(49,491)**	**3,605**	**(45,886)**
As of December 31, 2018			
Total Assets	**2,035,715**	**69,967**	**2,105,682**
Total Liabilities	**1,413,667**	**8,487**	**1,422,154**
Segment Revenues	**1,287,159**	**76,281**	**1,363,440**
Intersegment revenues	**(19,680)**	**-**	**(19,680)**
External revenues	**1,267,479**	**76,281**	**1,343,760**
As of December 30, 2018			
Segment Assets	**3,643,994**	**70,681**	**3,714,675**
Consolidated adjustments	**(1,608,279)**	**(714)**	**(1,608,993)**
Total assets	**2,035,715**	**69,967**	**2,105,682**
Segment Liabilities	**1,989,652**	**35,551**	**2,025,203**
Consolidated adjustments	**(575,985)**	**(27,064)**	**(603,049)**
Total liabilities	**1,413,667**	**8,487**	**1,422,154**

19. SEGMENTAL REPORTING (Continued)

	Kingdom of Saudi Arabia	Arab Republic of Egypt	Total
	SR '000	SR '000	SR '000
For the year ended December 31, 2017			
External revenue	1,154,673	75,819	1,230,492
Finance cost	49,549	2,117	51,666
Depreciation and amortization	123,508	2,406	125,914
Loss before zakat and income tax	(161,735)	(932)	(162,667)
As of December 31, 2017			
Total Assets	2,107,679	71,165	2,178,844
Total Liabilities	1,422,714	16,342	1,439,056
For the year ended December 31, 2017			
Segment Revenues	1,187,250	75,819	1,263,069
Intersegment revenues	(32,577)	-	(32,577)
External revenues	1,154,673	75,819	1,230,492
As of December 31, 2017			
Segment Assets	3,770,830	71,165	3,841,995
Consolidated adjustments	(1,663,151)	-	(1,663,151)
Total assets	2,107,679	71,165	2,178,844
Segment Liabilities	2,031,799	38,119	2,069,918
Consolidated adjustments	(609,085)	(21,777)	(630,862)
Total liabilities	1,422,714	16,342	1,439,056

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

20. COST OF REVENUE

	December 31, 2018	December 31, 2017
	SR '000	SR '000
Material cost	**947,436**	863,231
Depreciation (note 6)	**90,574**	121,015
Employee costs	**87,445**	90,388
Electricity and water	**57,239**	55,891
Repair and maintenance	**23,207**	24,614
Amortization (note 7)	**506**	506
Others	**8,976**	12,512
	1,215,383	1,168,157

21. ADMINISTRATIVE EXPENSES

	December 31, 2018 SR '000	December 31, 2017 SR '000
Employee costs	**39,331**	53,438
Communication and other office expenses	**12,284**	17,712
Amortization (note 7)	**2,880**	2,369
Traveling and conveyance	**2,854**	3,444
Depreciation (note 6)	**2,108**	617
Legal and professional fee	**1,141**	9,140
Others	**993**	4,020
	61,591	90,740

22. SELLING, MARKETING AND DISTRIBUTION EXPENSES

	December 31, 2018 SR '000	December 31, 2017 SR '000
Local transportation	**35,140**	36,862
Employee costs	**21,127**	23,260
Rent	**588**	8,855
Depreciation (note 6)	**603**	1,407
Allowance for impairment of trade receivables	**-**	13,456
Others	**2,945**	5,360
	60,403	89,200

23. OTHER INCOME, NET

	December 31, 2018 SR '000	December 31, 2017 SR '000
Sale of scrap	**6,677**	5,703
Allowance for impairment for trade receivables	**2,000**	-
Foreign exchange (loss) gain	**(1,071)**	459
Write off of property, plant and equipment	**(3,430)**	-
Others	**4,498**	1,791
	8,674	7,953

24. RELATED PARTIES' 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.

Company	**Relationship**
Al Othman Group of companies	Affiliates

The significant transactions with related parties during the year are as follows:

Nature of transaction	**December 31, 2018 SR '000**	December 31, 2017 SR '000
Purchase of air tickets	**3,333**	5,382
IT services	**5,490**	6,034
Purchase of materials	**1,322**	468
Expenses incurred on behalf of affiliates	**80**	30
Purchase of / advance for property, plant and equipment	**-**	3,028
Sales during the year	**76,344**	72,329
Accommodation, food and other miscellaneous expenses	**6,234**	5,963

A) Balances receivable from related parties are as follows:

	December 31, 2018 SR '000	December 31, 2017 SR '000
Al Othman Agriculture Production and Processing Company ("NADA")	**22,241**	21,202
Al-Othman Holding Company	**93**	-
	22,334	21,202

B) Balances payable to related parties are as follows:

	December 31 2018 SR '000	December 31 2017 SR '000
Al Othman Agriculture Production and Processing Company ("NADA")	**4,593**	-
Mohamed Al-Othman agency for travel and tourism (Al-Othman Travel)	**534**	366
Systems of Strategic Business Solutions Company ("SSBS")	**1,143**	629
Others	**93**	16
	6,363	1,011

25. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

	December 31, 2018 SR '000	December 31, 2017 SR '000
Remuneration	**10,597**	7,232
House rent allowance	**2,683**	1,481
Employee benefits	**1,142**	468
Bonus	**1,039**	1,785
Medical allowance	**153**	107
Utilities allowance	**73**	100
Others	**495**	188
	16,182	11,361

26. OPERATING LEASE ARRANGEMENTS

The Group has entered into operating lease agreement for land/building/employee accommodation for a time period between one year to thirty years. The Group holds no right to acquire this property at the end of the contract.

	December 31, 2018 SR '000	December 31, 2017 SR '000
Expenses recognized against leasing Arrangements	**6,586**	12,166

Commitments for minimum lease payments under non-cancelable operating leases are as follows:

	December 31, 2018 SR '000	December 31, 2017 SR '000
Not later than 1 year	**3,241**	1,756
Later than 1 year and not later than 5 years	**11,875**	11,107
Later than 5 years	**15,755**	18,173
	30,871	31,036

27. CONTINGENCIES AND COMMITMENTS

	December 31, 2018 SR '000	December 31, 2017 SR '000
Letters of credit	**25,098**	10,445
Letter of guarantees and others	**3,691**	4,442
Capital commitments against purchase of property, plant and equipment	**15,036**	11,968

28. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. With regard to diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

Loss per share are represented as follows:

	December 31, 2018	December 31, 2017
Basic/ Dilutive loss per share (SR)	**(0.42)**	(1.77)
Loss for the year (SR '000)	**(39,730)**	(168,235)
Weighted average number of outstanding shares	**95,000,000**	95,000,000

29. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to the following financial risks from its use of the financial instruments:

- Credit risk
- Liquidity risk
- Market risk (including interest rate risk and Foreign currency exchange risk)
- Capital management risk

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

29.1 Financial instruments by category

	December 31, 2018 SR '000	December 31, 2017 SR '000
Financial assets at amortized cost		
Trade receivables	**389,678**	310,334
Trade receivables – related parties	**22,241**	21,202
Due from a related party	**93**	-
Other receivables	**35,479**	42,868
Investment held at amortized cost	**-**	6,958
Cash and bank balances	**9,943**	41,583
Total financial assets	**457,434**	422,945

The Group has no financial assets at fair value through profit and loss.

29. FINANCIAL RISK MANAGEMENT (Continued)

29.1 Financial instruments by category (Continued)

Financial liabilities at amortized cost:

	December 31, 2018 SR '000	December 31, 2017 SR '000
Trade payables and other liabilities	**300,388**	234,682
Due to related parties	**6,363**	1,011
Short term loans	**575,671**	698,788
Medium and long term loans	**500,585**	453,506
Total financial liabilities	**1,383,007**	1,387,987

The Group have no financial liability at fair value through profit and loss.

29.2 Financial instruments and related disclosures

The Group reviews and agrees policies for managing each of the risks and these policies are summarized below:

29.2.1 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Group has policies in place to minimize its exposure to credit risk. The maximum exposure to credit risk at the reporting date is as follows:

	December 31, 2018 SR '000	December 31, 2017 SR '000
Trade receivables	**389,678**	310,334
Trade receivables – related parties	**22,241**	21,202
Due from a related party	**93**	-
Other receivables	**35,479**	42,868
Investment held at amortized cost	**-**	6,958
Cash at bank	**9,718**	41,307
	457,209	422,669

The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks with sound credit rating. 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 consolidated statement of financial position. The group manages credit risk with respect to its receivables from customers by monitoring it in accordance with the established policies and procedures which includes establishment of credit limits and regular monitoring of the ageing of trade receivables.

The Group's management determines the credit risk by regularly monitoring the creditworthiness rating its of existing customers and through a monthly review of the trade receivables' ageing analysis. In monitoring the customers' credit risk, customers are grouped according to their credit characteristics. Customers that are graded as "high risk" are placed on a separate list, and future credit sales are made only with approval of key directors, otherwise payment in advance is required. The group assess the recoverable amount of its receivables to ensure adequate allowance for impairment is made.

29. FINANCIAL RISK MANAGEMENT (Continued)

29.2 Financial instruments and related disclosures (Continued)

29.2.1 Credit risk (Continued)

Trade receivables are classified as past due if they are outstanding for more than 30-120 days based on respective customer credit period. For ageing of receivables refer note 10.2. Analysis of trade receivables is as follows:

	December 31, 2018 SR '000	December 31, 2017 SR '000
Not past due	**199,559**	205,114
Past due	**212,453**	126,422
Less: Provision for doubtful debts	**(56,507)**	(38,086)
	155,946	88,336
	355,505	293,450

29.2.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value.

The table below summarizes the maturity profile of the Group's financial liabilities based on undiscounted contractual cash payments:

Financial liabilities

2018	**Carrying amount SR '000**	**On demand or less than one year SR '000**	**One year to five years SR '000**
Trade payable and other liabilities	**300,388**	**300,388**	-
Due to related parties	**6,363**	**6,363**	-
Short term loans	**575,671**	**575,671**	-
Medium and long term loan	**500,585**	**223,370**	**277,215**
	1,383,007	**1,105,792**	**277,215**

2017	Carrying amount SR '000	On demand or less than one year SR '000	One year to five years SR '000
Trade payable and other liabilities	234,682	234,682	-
Due to related parties	1,011	1,011	-
Short term loans	698,788	698,788	-
Medium and long term loan	453,506	96,684	356,822
	1,387,987	1,031,165	356,822

As at December 31, 2018 the Group's current liabilities exceeded its current assets. The Group is managing its future cash flow requirements through the cash inflows from operations and unavailed credit facilities (note 15). Management is confident of its ability to renew these facilities as they become due and avail new facilities as required.

Liquidity risk is managed by monitoring on a regular basis that sufficient funds and banking and other credit facilities are available to meet the Group's future commitments. The Group's terms of sales require amounts to be paid either on a cash or on a credit term basis.

29. FINANCIAL RISK MANAGEMENT (Continued)

29.2 Financial instruments and related disclosures (Continued)

29.2.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments due to fluctuation in the related financial instruments value. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.

i) Commission rate risk

Commission rate risk is the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flows. The Group is exposed to interest rate risk on its interest bearing assets and liabilities mainly bank overdraft, bank facilities and other borrowings. Management limits the Group's interest rate risk by monitoring changes in interest rates. Management monitors the changes in commission rates and believes that the cash flow and fair value commission rate risk to the Group is not significant.

The Group's receivables and payables carried at amortized cost are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. Hence, the Group is not exposed to fair value interest rate risk.

Commission 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 100 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.

		Increase/ Decrease in basis points of interest rates	Effect on income for the year
			SR '000
December 31, 2018	**SAR**	**+100**	**9,850**
	SAR	**-100**	**(9,850)**
December 31, 2017	SAR	+100	10,556
	SAR	-100	(10,556)

29. FINANCIAL RISK MANAGEMENT (Continued)

29.2 Financial instruments and related disclosures (Continued)

29.2.3 Market risk (Continued)

ii) Currency risks:

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.

	Currency	December 31, 2018 SR '000	December 31, 2017 SR '000
Cash and cash equivalent	USD	**2,645**	16,892
	EUR	**1,093**	1,584
	EGP	**37**	5,549
	AED	**395**	565
		4,170	24,590
Trade receivables	EGP	**13,566**	10,986
	USD	**115,107**	77,494
	EUR	**8,957**	7,665
	AED	**1,114**	-
		138,744	96,145
Trade payable and other liabilities	EGP	**(1,075)**	(5,856)
	USD	**(13,494)**	(13,227)
	EUR	**(1,860)**	(5,542)
	AED	**(26)**	(197)
	CHF	**-**	(12)
	GBP	**(10)**	(9)
	BHD	**-**	(18)
		(16,465)	(24,861)
Short-term loans	EGP	**(14)**	(3,159)
	USD	**-**	(5,690)
		(14)	(8,849)
Net statement of financial position exposure		**126,435**	87,025

29.2.4 Fair values of financial instruments

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group's financial assets consist of cash and cash equivalents, accounts receivables and some other assets, while its financial liabilities consist of trade accounts payables, some accrued expenses and other liabilities. The fair values of financial instruments are not materially different from their carrying values.

29. FINANCIAL RISK MANAGEMENT (Continued)

29.2 Financial instruments and related disclosures (Continued)

29.2.5 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or obtain / repay financing from / to financial institutions.

Consistent with others in the industry, the Company manages its capital risk by monitoring its debt levels and liquid assets and keeping in view future investment requirements and expectations of the shareholders. Debt is calculated as total of long term finance and short term borrowings. Total capital comprises shareholders' equity as shown in the statement of financial position under 'share capital and reserves' and net debt (net of cash and cash equivalent).

The salient information relating to capital risk management of the Group as of December 31, 2018 and 2017 were as follows:

	December 31, 2018 SR '000	December 31, 2017 SR '000
Total debt	**1,076,256**	1,152,294
Less: cash and bank balances	**(9,943)**	(41,583)
Net debt	**1,066,313**	1,110,711
Total equity	**683,528**	739,788
Total capital employed	**1,749,841**	1,850,499
Gearing ratio	**60.94%**	60.02%

30. PRIOR YEAR RECLASSIFICATIONS

Certain comparative figures for year ending December 31, 2017 have been reclassified to conform with the presentation in the current period. The details and impacts of major re-classification on figures of comparative balances are as follows.

Reclassification of balances reported under condensed consolidated interim statement of profit or loss and other comprehensive income

a) For the year ended December 31, 2017, the scrap sales were presented as revenue. For better presentation the Group elected not to present it as revenue instead to present these scrap sales and its cost as a net amount in other income and accordingly comparative figures of revenue and cost of revenue and related notes has been adjusted to reflect such reclassification.

b) For the year ended December 31, 2017, the rent expense on account of finished goods warehouses and freight costs for sales were presented as a part of cost of revenue. For better presentation the Group elected not to present it as cost of revenue instead to present these costs as part of selling marketing and distribution expenses and accordingly comparative figures of cost of revenue and selling, marketing and distribution expenses and related notes has been adjusted to reflect such reclassification.

c) For the year ended December 31, 2017, employee costs for warehouse employees and supply chain management was presented as administrative expenses. For better presentation the Group elected not to present it as administrative expenses instead to present these costs as part of selling, marketing and distribution expenses and accordingly comparative figures of administrative expenses and selling, marketing and distribution expenses and related notes has been adjusted to reflect such reclassification.

30. PRIOR YEAR RECLASSIFICATIONS (Continued)

The reclassifications made by the Group are as follows

	December 31, 2017	
	Debit	**Credit**
	SR '000	**SR '000**
Revenue	17,922	-
Cost of revenue	-	21,751
Administrative expenses, net	2,484	-
Selling, marketing and distribution expenses, net	2,267	-
Research expenses	5	-
Finance charges	38	-
Other income, net	-	965

31. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 17, 2019 corresponding to Rajab 10, 1440H.