TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)

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

TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019, 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, 2019, 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 of 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.

Emphasis of matter

We draw attention to Note 8 of the consolidated financial statements which states that management has performed annual impairment testing of Goodwill amounting to SR 323.58 million as of December 31, 2019. The assessment, which is reviewed by an independent party for the reasonableness of the methodology used by management, included assumptions related to the future sales volume, prices, operating assets, growth rates, terminal value and other related assets. The outcome of these assumptions is highly dependent on the success of the future operations of the Group and market conditions as estimated by management and achieving its plans in future. Management considers these assumptions to be realistic and achievable in view of its operational plan and is confident of its ability to meet these future plans. Management believes that the carrying value of cash generating units' assets including goodwill will not exceed their recoverable amount. Accordingly, no impairment is recorded for goodwill as of December 31, 2019.

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 matters listed below, our description on how our audit have addressed this matter is set below:

INDEPENDENT AUDITOR'S REPORT (Continued)

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

Key Audit Matters (Continued)

The key audit matter	How the matter was addressed
1- "Financial instruments" (IFRS 9) and impact on the impairment allowance of financial assets	
This standard provides the guidance related 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 requires "Expected Credit Loss" model (ECL) for the calculation of allowance for impairment 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 as per requirements 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 standard.
2- Impairment assessment of goodwill	
Goodwill of SR 323.58 million (2018: SR 323.58 million) which was recognized on the acquisition of Saudi Plastic Packaging System (formerly Savola Packaging Systems Company Limited) as at 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 cash generating units' assets including goodwill. Such methods include assumptions related to future sales volume, prices, operating assets, growth rates, terminal value and other related assets.	We have performed the following procedures for assessing the impairment of goodwill: • Evaluated key assumptions used by the management; • Reviewed the independent specialist valuation review report for the reasonableness of the valuation methodology of cash generating units' assets including goodwill 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;

INDEPENDENT AUDITOR'S REPORT (Continued)

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

Key Audit Matters (Continued)

2- Impairment assessment of goodwill *(Continued)*	
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.	• 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.

Other Information included in the Group's 2019 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.

Board of Directors of the Company are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (Continued)

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

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.

- 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 consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (Continued)

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

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

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.
P.O. Box 4636
Al Khobar 31952
Kingdom of Saudi Arabia

البسام وشركاؤه
محاسبون قانونيون
رقم الترخيص ٥٢٠/١١/٣٢٣
C.R.1010385804
license 520/11/323
Al-Bassam & Co.
Certified Public Accountants

Ibrahim Ahmed Al Bassam
License No. 337
Al Khobar,

28 Rajab, 1441H
March 23, 2020

TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

	Note	December 31, 2019 SR '000	December 31, 2018 SR '000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,009,262**	1,059,509
Intangible assets	7	**4,934**	5,101
Goodwill	8	**323,582**	323,582
Total non-current assets		**1,337,778**	1,388,192
Current assets			
Inventories	9	**240,863**	282,400
Trade receivables	10	**289,316**	355,505
Prepaid expenses and other assets	11	**51,162**	69,642
Investment held at amortized cost	12	**7,016**	-
Cash and cash equivalents	13	**40,274**	9,943
Total current assets		**628,631**	717,490
TOTAL ASSETS		**1,966,409**	2,105,682
EQUITY AND LIABILITIES			
EQUITY			
Share capital	14.1	**950,000**	950,000
Other reserves	14.2	**(43,392)**	(49,495)
Accumulated losses		**(313,694)**	(216,977)
Total equity		**592,914**	683,528
LIABILITIES			
Non-current liabilities			
Medium and long term loans	15.1	**173,934**	282,094
Lease liabilities – non-current portion	16	**16,147**	-
Employee benefits	17	**35,769**	36,429
Total non-current liabilities		**225,850**	318,523
Current liabilities			
Current portion of medium and long term loans	15.1	**174,420**	223,370
Short term loans	15.2	**695,313**	584,475
Lease liabilities – current portion	16	**1,409**	-
Trade payables and other liabilities	18	**276,503**	295,786
Total current liabilities		**1,147,645**	1,103,631
Total liabilities		**1,373,495**	1,422,154
TOTAL EQUITY AND LIABILITIES		**1,966,409**	2,105,682

The accompanying consolidated financial statements were authorized for issue by board of directors, on behalf of shareholders on March 23, 2020 and signed on their behalf by:

Marwan Jreige **Chief Financial Officer**	**Jameel A. Al-Molhem** **Managing Director**	**Abdulmohsen Al-Othman** **Chairman**

The accompanying notes 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, 2019

	Note	December 31, 2019 SR '000	December 31, 2018 SR '000
Revenue	20, 26	**1,189,450**	1,343,760
Cost of revenue	21, 26	**(1,117,515)**	(1,215,383)
Gross profit		**71,935**	128,377
Administrative expenses	22	**(64,572)**	(61,591)
Selling, marketing and distribution expenses	23	**(59,260)**	(60,403)
Research expenses		**(1,240)**	(1,571)
Operating (loss) income		**(53,137)**	4,812
Finance charges	24	**(61,895)**	(59,372)
Other income, net	25	**18,315**	8,674
Loss before zakat and income tax		**(96,717)**	(45,886)
Zakat and income tax	19.5	**-**	6,156
Net loss for the year		**(96,717)**	(39,730)
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified to statement of profit or loss			
Remeasurement gain on employee benefits	17	**2,232**	4,364
Item that may be reclassified to statement of profit or loss			
Exchange differences on translation of foreign operation		**3,871**	(444)
Other comprehensive income for the year		**6,103**	3,920
Total comprehensive loss for the year		**(90,614)**	(35,810)
Loss per share (SR) based on loss for the year attributable to shareholders of the company			
Basic and diluted loss per share	29	**(1.02)**	(0.42)

The accompanying consolidated financial statements were authorized for issue by board of directors, on behalf of shareholders on March 23, 2020 and signed on their behalf by:

Marwan Jreige **Chief Financial Officer**	**Jameel A. Al-Molhem** **Managing Director**	**Abdulmohsen Al-Othman** **Chairman**

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

TAKWEEN ADVANCED INDUSTRIES
(A SAUDI JOINT STOCK COMPANY)

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

	Share capital	Statutory reserve	Other reserves	Accumulated losses	Total
	SR '000	SR '000	SR '000	SR '000	SR '000
Balance as at January 1, 2018	950,000	29,419	(53,415)	(186,216)	739,788
Adjustment on adoption of IFRS 9	-	-	-	(20,450)	(20,450)
Balance as at January 1, 2018 (after adjustment)	950,000	29,419	(53,415)	(206,666)	719,338
Transfer (note 14.3)		(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
Net loss for the year	-	-	-	**(96,717)**	**(96,717)**
Other comprehensive income	-	-	**6,103**	-	**6,103**
Total comprehensive income (loss)	-	-	**6,103**	**(96,717)**	**(90,614)**
Balance as at December 31, 2019	**950,000**	-	**(43,392)**	**(313,694)**	**592,914**

The accompanying consolidated financial statements were authorized for issue by board of directors, on behalf of shareholders on March 23, 2020 and signed on their behalf by:

Marwan Jreige	**Jameel A. Al-Molhem**	**Abdulmohsen Al-Othman**
Chief Financial Officer	**Managing Director**	**Chairman**

The accompanying notes 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, 2019

	December 31, 2019 SR '000	December 31, 2018 SR '000
OPERATING ACTIVITIES		
Net loss for the year	**(96,717)**	(39,730)
Adjustments for:		
Depreciation	**108,939**	93,791
Amortization of intangible assets	**816**	2,880
Reversal for zakat and income tax	-	(6,156)
Write off of property, plant and equipment	-	3,430
Interest income on investments held at amortized costs	-	(634)
Allowance (Reversal of allowance) for inventories, net	**1,238**	(852)
Reversal of allowance for impairment of trade receivables	**(6,375)**	(2,000)
Finance charges	**61,895**	59,372
Employee benefits	**5,249**	5,189
	75,045	115,290
Movement in working capital:		
Inventories	**40,136**	33,987
Trade receivables	**72,209**	(80,476)
Prepaid expenses and other assets	**18,053**	(11,183)
Trade payables and other liabilities	**(17,511)**	71,058
Cash from operations	**187,932**	128,676
Finance charges paid	**(60,168)**	(58,135)
Zakat and income tax paid	**(1,745)**	(1,668)
Employee benefits paid	**(5,404)**	(6,151)
Net cash from operating activities	**120,615**	62,722
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(38,176)**	(23,341)
Additions to intangible assets	**(571)**	(2,184)
Investments held at amortized cost	**(7,016)**	-
Proceeds from investments	-	6,958
Interest income received on investments held at amortized cost	-	634
Net cash used in investing activities	**(45,763)**	(17,933)
FINANCING ACTIVITIES		
Change in short term loans	**110,838**	26,883
Repayment of principal of lease liability	**(1,384)**	-
Repayment of medium and long term loans	**(157,110)**	(102,921)
Net cash used in financing activities	**(47,656)**	(76,038)

The accompanying consolidated financial statements were authorized for issue by board of directors, on behalf of shareholders on March 23, 2020 and signed on their behalf by:

Marwan Jreige	Jameel A. Al-Molhem	Abdulmohsen Al-Othman
Chief Financial Officer	Managing Director	Chairman

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

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2019

	December 31, 2019 SR '000	December 31, 2018 SR '000
Net change in cash and cash equivalents	**27,196**	(31,249)
Cash and cash equivalent at the beginning of the year	**9,943**	41,583
Foreign currency translation differences	**3,135**	(391)
Cash and cash equivalents at the end of the year	**40,274**	9,943

	December 31, 2019 SR '000	December 31, 2018 SR '000
NON – CASH TRANSACTIONS		
Allowance for impairment of trade receivables on adoption of IFRS 9	-	20,450
Re-measurement gain on employee benefits	**2,232**	4,364
IFRS 16 – Right of use	**19,226**	-
IFRS 16 – Lease liability	**18,940**	-
Adjustment in right of use with prepayments	**427**	-
Adjustment in right of use with accruals	**141**	-
Transfer from property, plant and equipment to intangible assets	**78**	-
Transfer of short term loan to medium and long term loan	-	150,000

The accompanying financial statements were authorized for issue by board of directors, on behalf of shareholders on March 23, 2020 and signed on their behalf by:

Marwan Jreige	**Jameel A. Al-Molhem**	**Abdulmohsen Al-Othman**
Chief Financial Officer	**Managing Director**	**Chairman**

The accompanying notes 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, 2019, the current liabilities of the Group exceeded its current assets by SR 519 million (December 31, 2018: SR 386.1 million) mainly on account of short term loans and current portion of medium and long term loans amounting to SR 695.3 million and SR 174.4 million, respectively (December 31, 2018: SR 584.5 million and SR 223.4 million, respectively). Additionally, the Group was in breach of its loans' financial covenants as of December 31, 2019. The Group is currently negotiating with commercial banks and SIDF for the restructuring of these loans in order to re-solve the breach in covenants. Management of the Company believes that it would be successful in restructuring these loans and resolving the breach in the near future in addition to availing 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 (Note 15)

2. STRUCTURE OF THE GROUP

The consolidated financial statements as at December 31, 2019 include the financial statements of the Company and its following subsidiaries (collectively referred to as the "Group"):

Name of consolidated subsidiary	**Effective ownership**	
	2019	2018
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%

3. BASIS OF PREPARATION

3.1 Statement of compliance

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

3.2 Preparation of the consolidated financial statements

The consolidated financial statements have been prepared under the historical cost convention except where IFRS requires other measurement basis as disclosed in the applicable accounting policies in note 4 of these consolidated financial statements.

The preparation of consolidated financial statements in conformity with IFRSs 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-16 Leases from January 1, 2019. The impact of adoption of IFRS 16 is disclosed in the note 4.3. A number of other new standards, interpretations and amendments to the standards are effective from January 1, 2019, but they don't have material effect on the Group's consolidated financial statements.

IFRS 9 - Amendments, Prepayment features with negative compensation
IAS 28 - Amendment, long-term Interests in Associates and Joint Ventures
IAS 19 - Plan Amendment, Curtailment or Settlement
IFRIC 23 - Uncertainty over Income Tax Treatments
IFRSs 2015–2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

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

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

New and revised IFRSs	Description	Effective for annual periods beginning on or after
IFRS 17	Insurance Contracts	January 1, 2022
Amendments to IAS 1 and IAS 8	Definition of material	January 1, 2020
Amendments to IFRS 3	Definition of business	January 1, 2020
The Conceptual Framework for Financial Reporting	Amendments to references to Conceptual Framework in IFRSs and updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform	January 1, 2020
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A

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.

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 change to the Group's accounting policies resulting from the adoption of IFRS 16 is set as follows:

IFRS 16 – Leases

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

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

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

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

Impact of adoption of IFRS 16

	2019 **SR '000**
Operating lease commitments as at December 31, 2018	**26,677**
Lease liability recognized as at January 1, 2019 (discounted using the group's incremental borrowing rate of 5% at the date of initial application)	**18,940**

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rule had always been applied as of January 1, 2019. Right-of-use assets for property leases were measured at the amount equal to lease liability, adjusted by the amount of prepayments and accruals related to that leases recognized in the statement of financial position as at December 31, 2018. Property, plant and equipment increased by an amount of SR 19.23 million as on January 1, 2019. Prepayments and accruals are reduced by SR 0.43 million and 0.14 million respectively, as on January 1, 2019.

4.4 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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	2 – 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.

4.4.1 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.

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.

4.4.2 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 consolidated statement of profit or loss and other comprehensive income.

4.4.3 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Right-of-use assets

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

4.6 Intangible assets

Intangible assets anticipated to provide identifiable future benefits are classified as non-current assets. Intangible assets comprise goodwill and Enterprise resource planning (ERP) software. Enterprise resource planning (ERP) software development costs represent costs incurred to implement new system and are amortized over 10-year period from the date it is fully implemented. For goodwill, refer to business combination and goodwill policy (note 4.2).

4.7 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.

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 consolidated statement of profit or loss and other comprehensive income.

4.8 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 Financial Instruments

a) Classification of financial assets

On initial recognition, a financial asset is classified and measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). 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:

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

Business model assessment

The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group’s management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group’s stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case’ scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading, if any, and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. ‘Profit’ is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 Financial Instruments (Continued)

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (OCI).

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

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). On the initial recognition, for an equity investment that is not held for trading, the Company may irrecoverably elect to present subsequent changes in fair value in OCI.

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.

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 Group 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.

b) 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).

c) Impairment

The impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. 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.

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)

4.10 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.

4.11 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 that are measured at historical cost are translated using the exchange rate at the date of transaction. 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Foreign currency translation (Continued)

4.13.3 Group entities

The results and financial position of foreign subsidiaries having reporting currencies other than the presentation currency of the parent company, are translated into functional currency as follows:

(i) Assets and liabilities for each reporting period presented are translated at the closing exchange rates prevailing at the end of reporting period.

(ii) Income and expenses from each reporting period are translated at average exchange rates and;

(iii) Components of the equity accounts are translated at the exchange rates in effect of the dates of the related items originated. Cumulative adjustments resulting from the translations are reported in other comprehensive income and are reported in a separate component of equity as “Exchange differences on translation of foreign operations”.

4.14 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.

4.15 Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the year on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Incremental rate is the rate that the individual lessee would pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit and loss over the lease period so as to produce constant periodic rate of interest on the remaining balance of the liability of each year.

Short-term leases and leases of low-value assets

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.16 Employee benefits

Short term employees' benefits
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.

Employee 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 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.

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

4.17 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.

4.18 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.

4.19 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Revenue from contract with customers

The Group recognizes revenue when a customer obtains controls of the goods at a point in time i.e. on delivery and acknowledgement of goods, using the five-step model. This includes:

a) Identification of a contract with a customer, i.e., agreements with the Company that creates enforceable rights and obligations.

b) Identification of the performance obligations in the contract, i.e., promises in such contracts to transfer products or services.

c) Determination of the transaction price which shall be the amount of consideration the Company will expect to be entitled to in exchange for fulfilling its performance obligations (and excluding any amounts collected on behalf of third parties).

d) Allocation of the transaction price to each identified performance obligation based on the relative stand-alone estimated selling price of the products or services provided to the customer.

e) Recognition of revenue when/as a performance obligation is satisfied, i.e., when the promised products or services are transferred to the customer and the customer obtains control. This may be over time or at a point in time.

Revenue shall be measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described above must also be met before revenue is recognized. Where there are no specific criteria, above policy will apply and revenue is recorded as earned and accrued.

The Group 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 dis-counts which relate to the items sold.

4.21 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. During the period of development, the asset is tested for impairment annually.

4.22 Administrative and selling, marketing and distribution expenses

Administrative expenses include indirect costs not specifically part of production costs as required under IFRSs. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.23 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 GM of each cash generating unit 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 GM of each cash generating unit 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.

4.24 Earnings per share

4.24.1 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.

4.24.2 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.

5 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements in conformity with IFRSs 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.

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

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.

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 loss recognized on goodwill is 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.

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

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

6. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2019 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	Right of use Assets SR '000	Capital work in progress ("CWIP") SR '000	Total SR '000
Cost:							
Balance at January 1, 2019	353,664	1,497,129	8,394	21,887	-	17,117	1,898,191
Impact of adoption of IFRS 16 (note 4.3)	-	-	-	-	19,226	-	19,226
Balance at January 1, 2019 (Restated)	353,664	1,497,129	8,394	21,887	19,226	17,117	1,917,417
Additions	**1,432**	**18,332**	**149**	**26**	**-**	**18,237**	**38,176**
Transferred from CWIP	**874**	**12,242**	**363**	**266**	**-**	**(13,745)**	**-**
Transfer to intangible assets (note 7)	**-**	**-**	**-**	**(194)**	**-**	**-**	**(194)**
Write off	**-**	**(1,172)**	**-**	**-**	**-**	**-**	**(1,172)**
Foreign currency translation	**701**	**4,879**	**35**	**155**	**-**	**73**	**5,843**
Balance at December 31, 2019	**356,671**	**1,531,410**	**8,941**	**22,140**	**19,226**	**21,682**	**1,960,070**
Accumulated depreciation:							
Balance at January 1, 2019	70,965	745,739	7,398	14,580	-	-	838,682
Charge for the year	**8,195**	**83,447**	**278**	**1,938**	**1,718**	**-**	**95,576**
Adjustment	**(1,021)**	**17,184**	**(765)**	**(2,035)**	**-**	**-**	**13,363**
Transfer to intangible assets (note 7)	**-**	**-**	**-**	**(116)**	**-**	**-**	**(116)**
Write off	**-**	**(1,172)**	**-**	**-**	**-**	**-**	**(1,172)**
Foreign currency translation	**114**	**4,191**	**24**	**146**	**-**	**-**	**4,475**
Balance at December 31, 2019	**78,253**	**849,389**	**6,935**	**14,513**	**1,718**	**-**	**950,808**
Net book value:							
At December 31, 2019	**278,418**	**682,021**	**2,006**	**7,627**	**17,508**	**21,682**	**1,009,262**

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

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
Cost:						
Balance at January 1, 2018	349,895	1,503,310	8,396	21,089	12,916	1,895,606
Additions	3,548	9,870	-	292	9,631	23,341
Transferred from CWIP	278	4,595	-	554	(5,427)	-
Write off	-	(20,263)	-	(36)	-	(20,299)
Foreign currency translation	(57)	(383)	(2)	(12)	(3)	(457)
Balance at December 31, 2018	353,664	1,497,129	8,394	21,887	17,117	1,898,191
Accumulated depreciation:						
Balance at January 1, 2018	61,104	682,053	7,075	11,881	-	762,113
Charge for the year	9,869	80,851	325	2,746	-	93,791
Write off	-	(16,834)	-	(35)	-	(16,869)
Foreign currency translation	(8)	(331)	(2)	(12)	-	(353)
Balance at December 31, 2018	70,965	745,739	7,398	14,580	-	838,682
Net book value:						
At December 31, 2018	282,699	751,390	996	7,307	17,117	1,059,509

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.

At December 31, 2019, certain property, plant and equipment were pledged as collateral to certain credit facilities. Refer note 15.

Capital work-in-progress at December 31, 2019 is principally related to various additions to the production facilities and other improvements which were under progress at the year end.

The Group has recognized right of use assets and lease liabilities (note 16) on the leasehold land and buildings held.

Depreciation for the year has been allocated under the following:

	Note	**December 31, 2019 SR '000**	December 31, 2018 SR '000
Cost of revenue	**21**	**105,767**	91,080
Administrative expenses	**22**	**2,605**	2,108
Selling, marketing and distribution expenses	**23**	**567**	603
		108,939	93,791

7. INTANGIBLE ASSETS

	December 31, 2019 SR '000	December 31, 2018 SR '000
Cost	**19,078**	18,313
Less: accumulated amortization	**14,144**	13,212
Net book value	**4,934**	5,101

	December 31, 2019 SR '000	December 31, 2018 SR '000
Reconciliation of net book value		
Cost:		
January 1	**18,313**	16,129
Addition	**571**	2,184
Transfer from property, plant and equipment (note 6)	**194**	-
December 31	**19,078**	18,313
Amortization:		
January 1	**13,212**	10,332
Charge for the year	**816**	2,880
Transfer from property, plant and equipment (note 6)	**116**	-
December 31	**14,144**	13,212
Net book value	**4,934**	5,101

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, 2019	December 31, 2018
	SR '000	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

Management has performed annual impairment testing of Goodwill amounting to SR 323.58 million as of December 31, 2019. The assessment, which is reviewed by an independent party for the reasonableness of the methodology used by management, included assumptions related to the future sales volume, prices, operating assets, growth rates, terminal value and other related assets. The outcome of these assumptions is highly dependent on the success of the future operations of the Group and market conditions as estimated by management and achieving its plans in future. Management considers these assumptions to be realistic and achievable in view of its operational plan and is confident of its ability to meet these future plans. Management believes that the carrying value of cash generating units' assets including goodwill will not exceed their recoverable amount. Accordingly, no impairment is recorded for goodwill as of December 31, 2019.

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. For the assessment of the value in use, management consider Saudi Packaging, Al-Sharq and New Marina as one CGU. For assessing the impairment, the carrying amount of the CGU including the goodwill of SR 323.58 million is compared to the value in use using cash flow projections based on a forecast covering a five-year period approved by management. Management used a cumulative average growth rate (CAGR) in revenue of 2.5% over a period of five years, SIBOR rate of 2.23% and a discount rate of 10.9% 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 export sales exposure, product mix, selling prices, margins and raw material cost.

Sensitivity to Changes in Assumptions

With regard to the assessment of the value in use, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the CGU including goodwill to materially exceed its recoverable amount. The implications of changes to the key assumptions are discussed below:

(a) Sales Growth Assumption

If all other assumptions kept the same; a reduction of projected quantity sold by 8% would give a value in use equal to the current carrying amount.

(b) Terminal Value Multiple

The implied EBITDA multiple of terminal value to final year EBITDA is 12. If all other assumptions kept the same; a reduction of this multiple by 1.8 would give a value in use equal to the current carrying amount.

9. INVENTORIES

	Note	**December 31, 2019 SR '000**	December 31, 2018 SR '000
Finished goods		**95,042**	86,903
Raw and packaging materials and work in progress		**120,293**	172,018
Spare parts		**51,174**	47,724
		266,509	306,645
Allowance for inventories	**9.1**	**(25,646)**	(24,245)
		240,863	282,400

9.1 Movement in the allowance for inventories:

	December 31, 2019 SR '000	December 31, 2018 SR '000
Opening balance	**24,245**	25,110
Allowance (reversal of allowance) for the year	**1,238**	(852)
Foreign currency translation	**163**	(13)
Closing balance	**25,646**	24,245

10. TRADE RECEIVABLES

	Note	**December 31, 2019 SR '000**	December 31, 2018 SR '000
Trade receivables		**337,484**	389,678
Trade receivables – related parties	**26**	**2,302**	22,241
Due from a related party	**26**	**17**	93
	10.2	**339,803**	412,012
Allowance for impairment for trade receivables	**10.1**	**(50,487)**	(56,507)
		289,316	355,505

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

	December 31, 2019 SR '000	December 31, 2018 SR '000
Balance as at January 1	**56,507**	38,086
Impact of IFRS 9 adoption	**-**	20,450
Balance as at January 1 (after adjustment)	**56,507**	58,536
Reversal for the year	**(6,375)**	(2,000)
Foreign currency translation	**355**	(29)
Closing balance	**50,487**	56,507

10. TRADE RECEIVABLES (Continued)

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

		December 31, 2019		December 31, 2018	
	Estimated credit loss rate	**Gross SR '000**	**Impairment SR '000**	Gross SR '000	Impairment SR '000
Not past due	**0.17 - 0.74%**	**155,596**	**634**	199,559	479
Past due 1-90 days	**0.58 - 11.18%**	**102,689**	**3,187**	134,272	5,371
Past due 91-180 days	**10.33 - 36.441%**	**23,645**	**3,557**	24,526	3,066
Above 180 days	**16.62 - 99%**	**57,873**	**43,109**	53,655	47,591
		339,803	**50,487**	412,012	56,507

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, 2019 SR '000	December 31, 2018 SR '000
Rebate receivables	**23,436**	27,602
Advances to suppliers	**15,743**	20,341
Value added tax	**1,364**	8,803
Prepaid expenses	**5,453**	5,019
Margin against bank guarantees and letters of credit	**531**	833
Other receivables	**4,635**	7,044
	51,162	69,642

12. INVESTMENT HELD AT AMORTIZED COST

	December 31, 2019 SR '000	December 31, 2018 SR '000
Investments in treasury bills	**7,016**	-

Investment in treasury bills relates to the purchase of Egyptian treasury bills as of December 2019, by New Marina for Plastic Industries Company, a subsidiary, with a par value amounting to EGP 31.1 million and an annual interest rate of 14.5% which will mature on March 24, 2020.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the followings:

	December 31, 2019 SR '000	December 31, 2018 SR '000
Cash in hand	**374**	225
Cash at bank	**39,900**	9,718
	40,274	9,943

14. EQUITY

14.1 Share capital

	December 31, 2019 SR '000	December 31, 2018 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, 2019	December 31, 2018
Reconciliation of number of shares outstanding (in "000")		
Opening balance	**95,000**	95,000
Shares issued	**-**	-
Closing balance	**95,000**	95,000

14.2 Other reserves

	December 31, 2019 SR '000	December 31, 2018 SR '000
Exchange differences on translation of foreign operation	**(47,394)**	(51,265)
Remeasurements of employee benefits	**4,002**	1,770
	(43,392)	(49,495)

14.3 Statutory reserve

No transfer to statutory reserve has been made during 2019 and 2018 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.

15. BORROWINGS

15.1 Medium and long term loans

	December 31, 2019 SR "000	December 31, 2018 SR "000
Commercial loan	**280,989**	416,136
Saudi Industrial Development Fund ("SIDF") loans	**67,365**	89,328
	348,354	505,464
Less: current portion	**174,420**	223,370
	173,934	282,094

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 Saudi Packaging, Advanced Fabrics Factory Company (SAAF) and a corporate guarantee from Al-Othman Holding Company, an affiliate.

In 2016, a repayment of SR 490 million was made in respect of this loan i.e. SR 90 million pertaining to scheduled loan installment and early repayment of SR 400 million. There was no change in the term of the loan, however repayment has been rescheduled accordingly.

The Group is in breach of certain covenants of long term loan which is measured half yearly i.e. June and December every year. Management has taken necessary remedial action including obtaining waiver from the lead bank for the year ended December 31, 2018 and the period ended June 30, 2019. The Group is currently negotiating with commercial banks for the restructuring of these loans in order to resolve the breach in covenants. Management of the Company believes that it would be successful in restructuring these loans and resolving the breach in the near future in addition to availing new facilities as required. Accordingly, this loan continues to be classified as non-current. During 2018, in continuation of the original Murabaha Facilities Agreement with Arab National Bank, the Company has restructured SR 150 million from short term loan to medium and long term loan.

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.

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 was 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. On February 26, 2018, an agreement was signed with SIDF reflecting the transfer of the loan.

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 this loan. Management is currently in discussion with SIDF for the restructuring of the loans. Management of the Company believes that it would be successful in restructuring of this loan Accordingly, as of December 31, 2019, this loan is continued to be classified as per its original terms of repayment.

15. BORROWINGS (Continued)

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. LEASE LIABILITIES

The Group has lease liabilities related to factory lands and buildings. With the exception of short-term leases, each lease is presented as a lease liability on the statement of financial position. Lease term period of lands and buildings ranges from 2 to 21 years with fixed payment terms.

	December 31, 2019 SR '000
Opening balance – January 1, 2019	-
Impact of adoption of IFRS 16 (note 4.3)	18,940
Opening balance (Restated)	18,940
Interest accrued during the year	888
Lease liability settled during the year	(2,272)
Closing balance	17,556
Current portion of lease liabilities	1,409
Non-current portion of lease liabilities	16,147

As at December 31, 2019, lease payments and finance charges related to lease liabilities are as follows:

	Current SR '000	1-5 years SR '000	6-10 years SR '000	11-21 years SR '000	Total SR '000
Lease payments	2,228	8,674	5,864	8,568	25,334
Finance charges	(819)	(3,192)	(2,155)	(1,612)	(7,778)
Net present values	1,409	5,482	3,709	6,956	17,556

17. EMPLOYEE BENEFITS

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

	December 31, 2019 SR '000	December 31, 2018 SR '000
Opening balance as at January 1	36,429	40,518
Expense charge for the year	6,976	6,426
Re-measurement gain	(2,232)	(4,364)
Employee benefits paid	(5,404)	(6,151)
Closing balance	35,769	36,429

17. EMPLOYEE BENEFITS (Continued)

Charge to consolidated statement of profit or loss for the year

	December 31, 2019 SR '000	December 31, 2018 SR '000
Current service cost	**5,249**	5,189
Interest cost	**1,727**	1,237
Cost recognized in profit and loss	**6,976**	6,426

Principal actuarial assumptions

	December 31, 2019	December 31, 2018
Discount factor used	**2.95%**	4.60%
Salary increase rate	**2.95%**	4.60%
Rate of employees turnover	**Moderate**	Moderate

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

	December 31, 2019		December 31, 2018	
	Percentage	**Amount**	Percentage	Amount
		SR '000		SR '000
Discount rate				
Increase	**+0.5%**	**34,301**	+0.5%	34,979
Decrease	**- 0.5%**	**37,351**	- 0.5%	37,899
Expected rate of salary				
Increase	**+0.5%**	**37,388**	+0.5%	38,027
Decrease	**- 0.5%**	**34,252**	- 0.5%	34,931

18. TRADE PAYABLES AND OTHER LIABILITIES

	December 31, 2019 SR '000	December 31, 2018 SR '000
Trade payables	**230,076**	235,862
Accrued expenses	**37,494**	50,843
Due to related parties (note 26)	**7,846**	6,363
Provision for income tax (note 19.4)	**-**	1,631
Provision for zakat (note 19.3)	**1,087**	1,087
	276,503	295,786

19. ZAKAT AND INCOME TAX

19.1 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 2018. New Marina is registered in Arab Republic of Egypt and pays income tax according to its local laws and regulations.

Final assessments and clearances for the Group have been obtained from the General Authority of Zakat and Tax (GAZT) up to 2017. There are no further assessments received from GAZT.

19.2 Principal elements of zakat base:

	December 31, 2019 SR '000	December 31, 2018 SR '000
Non-current assets	**1,337,778**	1,388,192
Non-current liabilities	**225,850**	318,523
Spare parts	**51,174**	47,724
Opening shareholders' equity - adjusted	**683,528**	719,338
Net loss before zakat and income tax	**(96,717)**	(45,886)

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

19.3 Zakat provision:

	December 31, 2019 SR '000	December 31, 2018 SR '000
January 1	**1,087**	10,373
Reversal for the year	**-**	(7,795)
Payments during the year	**-**	(1,491)
December 31	**1,087**	1,087

19.4 Provision for income tax

	December 31, 2019 SR '000	December 31, 2018 SR '000
January 1	**1,631**	178
Provision for the year	**-**	1,639
Income tax paid during the year	**(1,745)**	(177)
Foreign currency translation	**114**	(9)
December 31	**-**	1,631

19.5 Current year's zakat and income tax expense

	December 31, 2019 SR '000	December 31, 2018 SR '000
Zakat reversal	**-**	(7,795)
Income tax expense	**-**	1,639
	-	(6,156)

20. 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:

	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, 2019			
External revenue	923,778	265,672	1,189,450
Finance cost	50,921	10,974	61,895
Depreciation and amortization	73,294	36,461	109,755
Loss before zakat and income tax	(76,230)	(20,487)	(96,717)
As of December 31, 2019			
Total assets	1,465,072	501,337	1,966,409
Total liabilities	1,246,115	127,380	1,373,495
For the year ended December 31, 2019			
Segment revenues	934,892	265,672	1,200,564
Intersegment revenues	(11,114)	-	(11,114)
External revenues	923,778	265,672	1,189,450
As of December 31, 2019			
Segment assets	2,939,120	534,624	3,473,744
Consolidated adjustments	(1,474,048)	(33,287)	(1,507,335)
Total assets	1,465,072	501,337	1,966,409
Segment liabilities	1,504,403	435,010	1,939,413
Consolidated adjustments	(258,288)	(307,630)	(565,918)
Total liabilities	1,246,115	127,380	1,373,495

20. 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

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

	Kingdom of Saudi Arabia	Arab Republic of Egypt	Total
	SR '000	SR '000	SR '000
For the year ended December 31, 2019			
External revenue	**1,121,776**	**67,674**	**1,189,450**
Finance cost	**61,289**	**606**	**61,895**
Depreciation and amortization	**108,044**	**1,711**	**109,755**
Loss before zakat and income tax	**(91,416)**	**(5,301)**	**(96,717)**
As of December 31, 2019			
Total assets	**1,896,810**	**69,599**	**1,966,409**
Total liabilities	**1,361,916**	**11,579**	**1,373,495**
For the year ended December 31, 2019			
Segment revenues	**1,132,890**	**67,674**	**1,200,564**
Intersegment revenues	**(11,114)**	**-**	**(11,114)**
External revenues	**1,121,776**	**67,674**	**1,189,450**

20. SEGMENTAL REPORTING (Continued)

	Kingdom of Saudi Arabia	Arab Republic of Egypt	Total
	SR '000	SR '000	SR '000
As of December 31, 2019			
Segment assets	**3,403,432**	**70,312**	**3,473,744**
Consolidated adjustments	**(1,506,622)**	**(713)**	**(1,507,335)**
Total assets	**1,896,810**	**69,599**	**1,966,409**
Segment liabilities	**1,902,786**	**36,627**	**1,939,413**
Consolidated adjustments	**(540,870)**	**(25,048)**	**(565,918)**
Total liabilities	**1,361,916**	**11,579**	**1,373,495**

	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
For the year ended December 31, 2018			
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 31, 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

21. COST OF REVENUE

	December 31, 2019 SR '000	December 31, 2018 SR '000
Material cost	**821,251**	947,436
Depreciation (note 6)	**105,767**	91,080
Employee costs	**95,078**	87,445
Electricity and water	**65,864**	57,239
Repair and maintenance	**19,302**	23,207
Others	**10,253**	8,976
	1,117,515	1,215,383

22. ADMINISTRATIVE EXPENSES

	December 31, 2019 SR '000	December 31, 2018 SR '000
Employee costs	**40,898**	39,331
Communication and other office expenses	**12,652**	12,284
Amortization (note 7)	**816**	2,880
Traveling and conveyance	**2,654**	2,854
Depreciation (note 6)	**2,605**	2,108
Legal and professional fee	**2,121**	1,141
Others	**2,826**	993
	64,572	61,591

23. SELLING, MARKETING AND DISTRIBUTION EXPENSES

	December 31, 2019 SR '000	December 31, 2018 SR '000
Local transportation	**33,626**	35,140
Employee costs	**19,618**	21,127
Rent	**909**	588
Depreciation (note 6)	**567**	603
Others	**4,540**	2,945
	59,260	60,403

24. FINANCE CHARGES

	December 31, 2019 SR '000	December 31, 2018 SR '000
Finance charges on loans	**53,154**	51,064
Bank and other charges	**7,853**	8,308
Finance charges on lease liability	**888**	-
	61,895	59,372

25. OTHER INCOME, NET

	December 31, 2019 SR '000	December 31, 2018 SR '000
Sale of scrap	**6,285**	6,677
Reversal of allowance for impairment of trade receivables	**6,375**	2,000
Foreign exchange gain (loss)	**1,543**	(1,071)
Write off of property, plant and equipment	**-**	(3,430)
Others	**4,112**	4,498
	18,315	8,674

26. 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, 2019 SR '000**	December 31, 2018 SR '000
Purchase of air tickets	**3,466**	3,333
IT services	**5,719**	5,490
Purchase of materials	**1,669**	1,322
Expenses incurred on behalf of affiliates	**-**	80
Sales during the year	**61,848**	76,344
Accommodation, food and other miscellaneous expenses	**4,955**	6,234

A) Balances receivable from related parties are as follows:

	December 31, 2019 SR '000	December 31, 2018 SR '000
Al Othman Agriculture Production and Processing Company ("NADA")	**2302**	22,241
Al-Othman Holding Company	**17**	93
	2,319	22,334

B) Balances payable to related parties are as follows:

	December 31 2019 SR '000	December 31 2018 SR '000
Al Othman Agriculture Production and Processing Company ("NADA")	**4,293**	4,593
Mohamed Al-Othman agency for travel and tourism (Al-Othman Travel)	**1,406**	534
Systems of Strategic Business Solutions Company ("SSBS")	**1,852**	1,143
Others	**295**	93
	7,846	6,363

27. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

	December 31, 2019 SR '000	December 31, 2018 SR '000
Remuneration	**11,890**	10,597
House rent allowance	**2,726**	2,683
Employee benefits	**667**	1,142
Bonus	**2,401**	1,039
Medical allowance	**151**	153
Utilities allowance	**-**	73
Others	**2,268**	495
	20,103	16,182

Payable balance to key management personnel as of year-end amounted to SR 1.31 million (2018: SR 0.90 million).

28. CONTINGENCIES AND COMMITMENTS

	December 31, 2019 SR '000	December 31, 2018 SR '000
Letters of credit	**32,149**	25,098
Letter of guarantees and others	**2,404**	3,691
Capital commitments against purchase of property, plant and equipment	**41,830**	15,036

29. 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, 2019	December 31, 2018
Basic/ Dilutive loss per share (SR)	**(1.02)**	(0.42)
Loss for the year (SR '000)	**(96,717)**	(39,730)
Weighted average number of outstanding shares	**95,000,000**	95,000,000

30. 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.

30. FINANCIAL RISK MANAGEMENT (Continued)

30.1 Financial instruments by category

	December 31, 2019 SR '000	December 31, 2018 SR '000
Financial assets at amortized cost		
Trade receivables	**337,484**	389,678
Trade receivables – related parties	**2,302**	22,241
Due from a related party	**17**	93
Other receivables	**28,602**	35,479
Investment held at amortized cost	**7,016**	-
Cash and bank balances	**40,274**	9,943
Total financial assets	**415,695**	457,434

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

Financial liabilities at amortized cost:

	December 31, 2019 SR '000	December 31, 2018 SR '000
Trade payables and accrued expenses	**267,570**	286,705
Due to related parties	**7,846**	6,363
Short term loans	**695,313**	584,475
Lease liabilities	**17,556**	-
Medium and long term loans	**348,354**	505,464
Total financial liabilities	**1,336,639**	1,383,007

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

30.2 Financial instruments and related disclosures

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

30.2.1 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, 2019 SR '000	December 31, 2018 SR '000
Trade receivables	**337,484**	389,678
Trade receivables – related parties	**2,302**	22,241
Due from a related party	**17**	93
Other receivables	**28,602**	35,479
Investment held at amortized cost	**7,016**	-
Cash at bank	**39,900**	9,718
	415,321	457,209

30. FINANCIAL RISK MANAGEMENT (Continued)

30.2 Financial instruments and related disclosures (Continued)

30.2.1 Credit risk (Continued)

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.

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, 2019 SR '000	December 31, 2018 SR '000
Not past due	**155,596**	199,559
Past due	**184,207**	212,453
Less: Allowance for impairment of trade receivables	**(50,487)**	(56,507)
	289,316	355,505

30.2.2 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

2019	**Carrying amount SR '000**	**Contractual cash flows SR '000**	**Within one year SR '000**	**1 – 5 Years SR '000**	**More than five years SR '000**
Trade payable and accrued expense	**267,570**	**267,570**	**267,570**	**-**	**-**
Due to related parties	**7,846**	**7,846**	**7,846**	**-**	**-**
Short term loans	**695,313**	**700,681**	**700,681**	**-**	**-**
Lease liabilities	**17,556**	**25,334**	**2,228**	**8,674**	**14,432**
Medium and long term loan	**348,354**	**367,207**	**188,346**	**178,861**	**-**
	1,336,639	**1,368,638**	**1,166,671**	**187,535**	**14,432**

30. FINANCIAL RISK MANAGEMENT (Continued)

30.2 Financial instruments and related disclosures (Continued)

2018	Carrying amount SR '000	Contractual cash flows SR '000	Within one year SR '000	1 – 5 Years SR '000
Trade payable and accrued expenses	286,705	286,705	286,705	-
Due to related parties	6,363	6,363	6,363	-
Short term loans	584,475	590,066	590,066	-
Medium and long term loan	505,464	546,730	179,523	367,207
	1,383,007	1,429,864	1,062,657	367,207

As at December 31, 2019 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 (note 15).

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.

30.2.3 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, 2019	**SAR**	**+100**	**(9,628)**
	SAR	**-100**	**9,628**
December 31, 2018	SAR	+100	(9,850)
	SAR	-100	9,850

30. FINANCIAL RISK MANAGEMENT (Continued)

30.2 Financial instruments and related disclosures (Continued)

30.2.3 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, 2019 SR '000**	December 31, 2018 SR '000
Cash and cash equivalent	USD	**6,269**	2,645
	EUR	**577**	1,093
	EGP	**9,858**	37
	AED	**895**	395
		17,599	4,170
Trade receivables	EGP	**18,843**	13,566
	USD	**91,146**	115,107
	EUR	**1,712**	8,957
	AED	**3,916**	1,114
		115,617	138,744
Trade payable and other liabilities	EGP	**-**	(1,075)
	USD	**(13,219)**	(13,494)
	EUR	**(5,820)**	(1,860)
	AED	**(26)**	(26)
	CHF	**(6)**	-
	GBP	**(14)**	(10)
		(19,085)	(16,465)
Short-term loans	EGP	**(492)**	(14)
		(492)	(14)
Net statement of financial position exposure		**113,639**	126,435

30.2.4 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.

30. FINANCIAL RISK MANAGEMENT (Continued)

30.2 Financial instruments and related disclosures (Continued)

30.2.5 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, 2019 and 2018 were as follows:

	December 31, 2019 SR '000	December 31, 2018 SR '000
Total debt	**1,043,667**	1,089,939
Less: cash and bank balances	**(40,274)**	(9,943)
Net debt	**1,003,393**	1,079,996
Total equity	**592,914**	683,528
Total capital employed	**1,596,307**	1,763,524
Gearing ratio	**62.86%**	61.24%

31. PRIOR YEAR RECLASSIFICATIONS

Certain comparative figures for year ended December 31, 2018 have been reclassified to conform with the presentation in the current year.

32. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 23, 2020 corresponding to Rajab 28, 1441H.