

**SAUDI PAPER MANUFACTURING COMPANY
AND SUBSIDIARIES
(A Saudi Joint Stock Company)**

INTERIM CONSOLIDATED FINANCIAL
STATEMENTS FOR THE THREE-MONTH PERIOD AND
YEAR ENDED DECEMBER 31, 2015
AND LIMITED REVIEW REPORT

SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD AND YEAR ENDED DECEMBER 31, 2015

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LIMITED REVIEW REPORT

January 21, 2016

To the Shareholders of Saudi Paper Manufacturing Company:
(A Saudi Joint Stock Company)

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Paper Manufacturing Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2015 and the interim consolidated income statement for the three-month period and year ended December 31, 2015, and the interim consolidated statement of cash flows for the year then ended, and the related notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required.

We conducted our limited review in accordance with the Standard of Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in Saudi Arabia.

PricewaterhouseCoopers

By: 
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License Number 375



SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Interim consolidated balance sheet
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31,	
		2015 (Unaudited)	2014 (Audited)
Assets			
Current assets			
Cash and cash equivalents		21,153,462	24,070,573
Accounts receivable		281,766,709	295,391,043
Inventories		242,153,051	182,016,781
Available-for-sale investments		3,259,865	3,259,865
Prepayments and other receivable	3,7	137,850,195	151,888,843
		<u>686,183,282</u>	<u>656,627,105</u>
Non-current assets			
Investment in an associate		14,533,391	13,544,050
Property, plant and equipment	5	996,942,119	1,016,462,271
Intangible assets	7	16,363,935	22,657,073
		<u>1,027,839,445</u>	<u>1,052,663,394</u>
Total assets		<u>1,714,022,727</u>	<u>1,709,290,499</u>
Liabilities			
Current liabilities			
Short-term borrowings	4	141,875,776	362,663,121
Liabilities against letter of credit refinancing facilities		144,453,128	65,145,107
Current maturity of long-term borrowings	4	132,043,478	82,529,434
Accounts payable		157,764,007	79,614,085
Accrued and other liabilities		94,167,942	48,742,058
Zakat payable		4,916,734	5,929,637
		<u>675,221,065</u>	<u>645,623,442</u>
Non-current liabilities			
Long-term borrowings	4	468,151,058	356,842,340
Employee termination benefits		25,086,491	23,855,272
Other non-current liabilities		-	19,952,303
		<u>493,237,549</u>	<u>400,649,915</u>
Total liabilities		<u>1,168,458,614</u>	<u>1,046,273,357</u>
Equity			
Equity attributable to shareholders of the Company:			
Share capital		450,000,000	450,000,000
Statutory reserve		66,248,858	66,248,858
Retained earnings		28,971,686	142,998,396
Currency translation differences		(5,017,407)	(799,572)
Total shareholders' equity		<u>540,203,137</u>	<u>658,447,682</u>
Non-controlling interests		5,360,976	4,569,460
Total equity		<u>545,564,113</u>	<u>663,017,142</u>
Total liabilities and equity		<u>1,714,022,727</u>	<u>1,709,290,499</u>
Contingencies and commitments	8		

The accompanying notes from 1 to 8 form an integral part of these interim consolidated financial statements.

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SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Interim consolidated income statement
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For three-month periods ended December 31,		For year ended December 31,	
		2015	2014	2015	2014
		(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Sales	5	137,225,984	167,961,008	600,850,258	757,716,372
Cost of sales		(119,057,777)	(129,583,049)	(479,471,111)	(578,454,817)
Gross profit		18,168,207	38,377,959	121,379,147	179,261,555
Operating expenses					
Selling and marketing	6	(27,599,472)	(19,836,262)	(95,945,370)	(68,792,461)
General and administrative		(22,327,291)	(14,273,859)	(61,716,215)	(55,569,273)
(Loss) income from main operations		(31,758,556)	4,267,838	(36,282,438)	54,899,821
Other (expenses) income, net					
Financial charges, net		(7,661,146)	(8,203,570)	(33,549,226)	(32,709,526)
Share in net income of an associate		-	3,144,050	988,476	3,144,050
Other, net	7	(4,796,726)	2,179,900	(43,424,533)	2,763,010
(Loss) income before zakat and non-controlling interests		(44,216,428)	1,388,218	(112,267,721)	28,097,355
Zakat		-	900,000	(1,150,000)	(2,400,000)
(Loss) income before non-controlling interests		(44,216,428)	2,288,218	(113,417,721)	25,697,355
Non-controlling interests		(154,040)	(187,725)	(608,989)	(630,144)
Net (loss) income for the period / year		(44,370,468)	2,100,493	(114,026,710)	25,067,211
(Loss) earnings per share (Saudi Riyals):	2.21				
• (Loss) income from main operations		(0.71)	0.09	(0.81)	1.22
• Net (loss) income for the period / year		(0.99)	0.05	(2.53)	0.56

The accompanying notes from 1 to 8 form an integral part of these interim consolidated financial statements.

SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Interim consolidated cash flow statement
(All amounts in Saudi Riyals unless otherwise stated)

	For year ended December 31,	
	2015 (Unaudited)	2014 (Audited)
Cash flow from operating activities		
Net (loss) income for the year	(114,026,710)	25,067,211
<u>Adjustments for non-cash items</u>		
Provision for doubtful accounts and other receivables	34,835,768	5,356,477
Impairment loss on goodwill	4,500,000	-
Provision for inventory obsolescence	17,780,002	-
Depreciation and amortization	45,525,150	50,004,466
Gain on sale of property and equipment	(1,917,305)	(1,447,240)
Share in net income of an associate	(989,341)	(3,144,050)
Income applicable to non-controlling interests	791,516	630,144
<u>Changes in working capital</u>		
Accounts receivable	(7,193,501)	(12,130,004)
Inventories	(81,016,272)	39,893,984
Prepayments and other receivable	(4,197,120)	8,551,481
Accounts payable	78,149,922	(32,007,319)
Accrued and other current liabilities	45,425,884	26,653,366
Zakat payable	(1,012,903)	(57,633)
Employee termination benefits	1,231,219	169,311
Net cash generated from operating activities	17,886,309	107,540,194
Cash flow from investing activities		
Proceeds from sale of investment	-	10,012,523
Purchase of property, plant and equipment	(22,937,195)	(65,489,742)
Proceed from sale of property and equipment	3,742,640	1,699,386
Additions to intangible assets	-	(813,895)
Net cash utilized in investing activities	(19,194,555)	(54,591,728)
Cash flow from financing activities		
Change in short-term borrowings	(220,787,345)	(123,261,055)
Liabilities against letter of credit refinancing facilities	58,355,718	(19,838,101)
Change in long-term borrowings	160,822,762	80,561,741
Dividends paid by subsidiaries to non-controlling interests	-	(1,266,807)
Net cash generated from (utilized in) financing activities	(1,608,865)	(63,804,222)
Net decrease in cash and cash equivalents	(2,917,111)	(10,855,756)
Cash and cash equivalents at beginning of the year	24,070,573	34,926,329
Cash and cash equivalents at end of year	21,153,462	24,070,573
Supplemental non-cash financial information		
<u>Non-cash operating and investing activity -</u>		
Transfer of inventories to property, plant and equipment	3,100,000	-

The accompanying notes from 1 to 8 form an integral part of these interim consolidated financial statements.

SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES

(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements

For the three-months period and year ended December 31, 2015 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Saudi Paper Manufacturing Company (the "Company" or "SPM") and its subsidiaries (collectively the "Group") consist of the Company and its various Saudi Arabian and foreign subsidiaries. The Group is principally engaged in manufacturing of tissue paper rolls, converting tissue paper rolls into facial, kitchen and toilet tissue papers and collecting, sorting, transporting and pressing waste papers.

The Company is a joint stock company, registered in the Kingdom of Saudi Arabia, operating under commercial registration No. 2050028141 issued in Dammam on 10 Muharram 1415 H (June 20, 1994). The registered address of the Company is P.O. Box 2598, Unit number 2, Dammam 34326-7169, the Kingdom of Saudi Arabia.

The accompanying interim consolidated financial statements were approved by the Company's Board of Directors on January 21, 2016.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these interim consolidated financial statements are set out below. These policies have been consistently applied to all periods presented.

2.1 Basis of preparation

The accompanying interim consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with the Standard of Accounting for Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. Significant accounting policies adopted by the Group for preparing such interim consolidated financial statements are consistent with the accounting policies described in the 2014 annual audited consolidated financial statements of the Group.

These interim consolidated financial statements and notes should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended December 31, 2014.

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management makes estimates and assumptions concerning the future which, by definition, seldom equal the related actual results.

2.3 Investments

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising from acquisition of subsidiaries is reported under "Intangible assets" in the balance sheet. Goodwill is tested annually for impairment and carried at cost, net of impairment losses.

Inter-company transactions, balances and unrealized gains and losses on transactions between group companies are eliminated.

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(All amounts in Saudi Riyals unless otherwise stated)

(b) Associates

Associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting and is initially recognized at cost. The Group's investment in an associate includes goodwill identified on acquisition, which is adjusted subsequently for impairment loss, if any.

(c) Other investments

Other investments are initially recognized at cost and subsequently measured at the fair value, where applicable.

2.4 Segment reporting

(a) Business segment

A business segment is group of assets, operations or entities:

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

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

2.5 Foreign currencies

(a) Reporting currency

These interim consolidated financial statements are presented in Saudi Riyals which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period-end exchange rates are recognized in the income statement.

(c) Group companies

Cumulative adjustments resulting from the translations of the financial statements of the foreign subsidiaries into Saudi Riyals are reported as a separate component of equity.

Dividends received from subsidiaries and an associate are translated at the exchange rate in effect at the transaction date.

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(All amounts in Saudi Riyals unless otherwise stated)

2.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date.

2.7 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the income statement and reported under "Selling and marketing expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited to "Selling and marketing expenses" in the income statement.

2.8 Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads.

2.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, except construction in progress which is stated at cost. Land is not depreciated. Depreciation is charged to the income statement, using the straight-line method, to allocate the cost of the related assets to their estimated useful lives.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.10 Deferred charges

Costs that are not of benefit beyond the current period are charged to the income statement, while costs that will benefit future periods are capitalized. Deferred charges, reported under "Intangible assets" in the balance sheet, include certain indirect construction costs and pre-operating expenses which are amortized over periods which do not exceed seven years.

2.11 Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than goodwill 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 income statement. Impairment losses recognized on goodwill are not reversible.

2.12 Borrowings

Borrowings are recognized at the proceeds received, net of transaction Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the income statement.

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(All amounts in Saudi Riyals unless otherwise stated)

2.13 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

2.14 Zakat and tax

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT").

Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the income statement. Additional amounts payable, if any, at the finalization of assessments are accounted for when such amounts are determined.

The Company and its Saudi Arabian subsidiaries withhold tax on certain transactions with non-resident parties, including dividend payments to foreign shareholders of the Saudi Arabian subsidiaries, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Foreign subsidiaries are subject to income tax in their respective countries of domicile which are charged to the income statement.

Deferred income tax are recognized on all major temporary differences between financial income and taxable income during the period in which such differences arise, and are adjusted when related temporary differences are reversed. Deferred income tax are determined using tax rates which have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2.15 Employee termination benefits

Employee termination benefits required by the Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the income statement.

The foreign subsidiaries provide currently for employee termination and other benefits as required under the laws of their respective countries of domicile.

2.16 Revenues

Sales are recognized upon delivery of products. Revenues are shown net of discounts and rebates and after eliminating sales within the Group.

2.17 Selling, marketing and general and administrative expenses

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

2.18 Dividends

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

2.19 Operating leases

Rental expense under operating leases is charged to the income statement over the period of the respective lease.

SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES

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Notes to the interim consolidated financial statements

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(All amounts in Saudi Riyals unless otherwise stated)

2.20 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of their net income to a statutory reserve until such reserve equals 50% of share capital. No allocation was made for the year ended December 31, 2015 due to net loss for the year. The statutory reserve in the accompanying interim consolidated financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders of the Company.

2.21 Earnings (loss) per share

Earnings (loss) per share for the three-month period and year ended December 31, 2015 and 2014 has been computed by dividing the operating income and net income for the period / year by weighted average number of 45,000,000 shares outstanding during such period / year.

3 Prepayments and other receivable

Prepayments and other receivable at December 31, 2015 include:

- Receivable from a third party against sale of five land parcels in 2012. During December 2014, the Company repurchased a portion of a land parcel in Jeddah for an amount of Saudi Riyals 66.7 million. Under the terms of the purchase agreement with the third party, the purchase price was adjusted against the balance receivable and the remaining balance of Saudi Riyals 56.3 million was rescheduled for repayments in two installments which was due in 2015. The Group holds the title deeds of three land parcels sold in 2012 in its name as collateral.
- A balance amounting to Saudi Riyals 8.9 million receivable from a third party is secured against promissory notes. The Group management, based on advice from its legal counsel, believes that the balance is recoverable. Accordingly, no provision against such amount has been made in the accompanying 2015 interim consolidated financial statements.
- An amount of Saudi Riyals 15.0 million as part of a claim receivable from an insurance company outstanding since 2009, which is under litigation. The initial judgment by the Committee of the Insurance Violations and Disputes (the "Committee") was in favor of the Group and has been appealed by the insurance company. During the year ended December 31, 2015, the Committee decided a settlement value of Saudi Riyals 7.5 million against the total claim of Saudi Riyals 15.0 million. The Board of Directors of the Company has decided to accept the Committee decision and, accordingly, a provision of Saudi Riyals 7.5 million against such claim has been made in the accompanying interim 2015 consolidated financial statements. Also see Note 5.

4 Borrowings

Long-term borrowings at December 31, 2015 include short-term loans amounting to Saudi Riyals 270.0 million which were classified as long-term by the Group based on the options available to the Group to roll over or refinance such loans for further twelve month period and, accordingly, has classified them as long-term in the accompanying 2015 consolidated balance sheet.

The covenants of some of the short-term and long-term borrowing facilities require the Group to maintain certain level of financial conditions, require lenders' prior approval for dividends distribution above a certain amount and certain other requirements.

SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES

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Notes to the interim consolidated financial statements

For the three-months period and year ended December 31, 2015 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

5 Segment information

The Group operates principally in the following business segments:

- (i) Manufacturing; and
- (ii) Trading, transporting and other.

Selected financial information as of December 31, 2015 and 2014 and for the years then ended, summarized by the above business segments, was as follows:

	Manufacturing	Trading, transporting and other	Total
2015			
Sales	545,286,422	55,563,836	600,850,258
Net loss	(76,536,197)	(37,490,513)	(114,026,710)
Total assets	1,544,804,156	169,218,571	1,714,022,727

	Manufacturing	Trading, transporting and other	Total
2014			
Sales	656,796,675	100,919,697	757,716,372
Net income (loss)	41,641,863	(16,574,652)	25,067,211
Total assets	1,521,165,648	188,124,851	1,709,290,499

The Group's operations are conducted in Saudi Arabia, other Gulf Cooperation Council (GCC) countries and certain other countries. Selected financial information as of December 31, 2015 and 2014 and for the years then ended, summarized by geographic area, and were as follows:

	Saudi Arabia	GCC countries	Other countries	Total
2015				
Sales	538,939,711	44,936,908	16,973,639	600,850,258
Non-current assets:				
Property, plant and equipment	899,685,296	18,651,455	78,605,368	996,942,119
Other non-current assets	16,524,176	13,614,400	758,750	30,897,326
2014				
Sales	689,940,836	55,172,385	12,603,151	757,716,372
Non-current assets:				
Property, plant and equipment	914,345,718	20,225,126	81,891,427	1,016,462,271
Other non-current assets	17,272,828	18,114,400	813,895	36,201,123

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(All amounts in Saudi Riyals unless otherwise stated)

6 Selling and marketing expenses

During the year ended December 31, 2015, the Company's management has made a provision against doubtful debts amounting to Saudi Riyals 16.6 million (2014: Saudi Riyals 5.4 million).

7 Other, net

	Note	For three-month periods ended December 31,		For year ended December 31,	
		2015	2014	2015	2014
Provision for inventory obsolescence	7.1	-	-	17,780,002	-
Impairment of goodwill	7.2	-	-	4,500,000	-
Provision against insurance	3	-	-	7,500,000	-
Provision against custom duty receivable		-	-	4,035,768	-
Provision against other receivable		2,500,000	-	5,600,000	-
Other		2,296,726	(2,179,900)	4,008,763	(2,763,010)
		4,796,726	(2,179,900)	43,424,533	(2,763,010)

7.1 During the year ended December 31, 2015, the Company's management restructured the sales and marketing strategy for certain of its Saudi Arabian subsidiaries which resulted in discontinuation of certain finished products. The Group management recorded a provision of Saudi Riyals 17.7 million during the year ended December 31, 2015 against raw materials and finished products as a consequence of such decision.

7.2 During the year ended December 31, 2015, the Board of Directors of the Company considered the economic performance and the future prospects of its subsidiary in Dubai and decided to cease the operations and to initiate the liquidation process. Consequently, the Group management has recorded an impairment loss of Saudi Riyals 4.5 million against the goodwill recorded on the acquisition of such subsidiary. Management of the Group expects that no material gain or losses will result upon completion of the liquidation process.

8 Contingencies and commitments

- (i) The Group was contingently liable for bank guarantees issued in the normal course of the business amounting to Saudi Riyals 5.9 million at December 31, 2015 (2014: Saudi Riyals 17.8 million).
- (ii) The capital expenditure contracted by the Group but not yet incurred till December 31, 2015 was approximately Saudi Riyals 12.0 million (2014: Saudi Riyals 17.0 million).