

**ALUJAIN CORPORATION
(A SAUDI JOINT STOCK COMPANY)**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

AUDITORS' REPORT TO THE SHAREHOLDERS OF ALUJAIN CORPORATION (A SAUDI JOINT STOCK COMPANY)

Scope of Audit

We have audited the accompanying consolidated balance sheet of Alujain Corporation (A Saudi Joint Stock Company) ("the Company" or "the Parent Company") and its subsidiary ("the Group") as at 31 December 2016, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

In our opinion, the consolidated financial statements taken as a whole:

- i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's Bylaws in so far as they effect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Husam Faisal Bawared
Certified Public Accountant
Licence No. 393

25 Jumada I 1438H
22 February 2017

Jeddah

16/47/HFB



Alujain Corporation (A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

At 31 December 2016

	<i>Note</i>	2016 SR'000	2015 SR'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		388,691	308,426
Murabaha investments		5,435	6,000
Accounts receivable	4	208,134	199,059
Prepayments and other receivables	5	85,012	52,345
Amounts due from related parties	6	87,293	37,894
Inventories	7	206,214	253,119
TOTAL CURRENT ASSETS		980,779	856,843
NON-CURRENT ASSETS			
Investments	8	132,796	134,220
Derivative financial instruments	14	770	-
Deferred charges	9	3,644	9,891
Property, plant and equipment	10	2,113,710	2,285,802
TOTAL NON-CURRENT ASSETS		2,250,920	2,429,913
TOTAL ASSETS		3,231,699	3,286,756
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable		74,437	94,856
Accruals and other liabilities	11	188,396	156,908
Amounts due to related parties	6	2,856	507
Current portion of long term loans	12	235,125	260,180
Provision for zakat	13	15,938	12,794
TOTAL CURRENT LIABILITIES		516,752	525,245
NON-CURRENT LIABILITIES			
Long term loans	12	713,184	944,265
Derivative financial instruments	14	-	10,120
Employees' terminal benefits		31,499	27,019
TOTAL NON-CURRENT LIABILITIES		744,683	981,404
TOTAL LIABILITIES		1,261,435	1,506,649
SHAREHOLDERS' EQUITY			
Equity attributable to the shareholders of the Parent Company			
Share capital	15	692,000	692,000
Statutory reserve	16	61,904	50,631
Retained earnings		401,292	299,838
Cumulative changes in fair values of derivatives		509	(4,987)
Total equity attributable to the shareholders of the Parent Company		1,155,705	1,037,482
Non-controlling interest		814,559	742,625
TOTAL SHAREHOLDERS' EQUITY		1,970,264	1,780,107
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,231,699	3,286,756

The attached notes 1 to 27 form part of the consolidated financial statements.

Alujain Corporation (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2016

	<i>Note</i>	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Sales		1,443,444	1,460,503
Cost of sales		(1,076,372)	(1,087,003)
GROSS PROFIT		367,072	373,500
EXPENSES			
Selling and distribution	17	(20,606)	(19,517)
General and administration	18	(58,356)	(58,170)
INCOME FROM MAIN OPERATIONS		288,110	295,813
OTHER (EXPENSES) / INCOME			
Share in loss of joint ventures	8(a)	(8,473)	(12,291)
Financial charges		(49,209)	(60,002)
Project research cost		(8,790)	(6,984)
Amortization of other deferred charges	9	(6,247)	(6,247)
Amortization of deferred financial charges	12(c)	(4,044)	(5,915)
Impairment of available-for-sale investments	8(c)	(89)	(1,389)
Changes in fair value of derivatives financial instruments		1,315	2,840
Foreign currency exchange loss		(51)	(7)
Other income		5,495	1,492
INCOME BEFORE ZAKAT AND NON-CONTROLLING INTEREST		218,017	207,310
Zakat	13	(14,644)	(12,322)
INCOME BEFORE NON-CONTROLLING INTEREST		203,373	194,988
Income attributable to non-controlling interest		(90,646)	(88,602)
NET INCOME FOR THE YEAR		112,727	106,386
EARNINGS PER SHARE			
Weighted average number of ordinary shares outstanding (in thousand)	15	69,200	69,200
Earnings per share on income from main operations (in SR per share)	19	4.16	4.27
Earnings per share on net income for the year (in SR per share)	19	1.63	1.54

The attached notes 1 to 27 form part of the consolidated financial statements.

Alujain Corporation (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	<i>Note</i>	2016 SR'000	2015 SR'000
OPERATING ACTIVITIES			
Net income for the year		112,727	106,386
Adjustments for:			
Depreciation	10	208,276	197,329
Amortization of other deferred charges	9	6,247	6,247
Amortization of deferred financial charges	12(c)	4,044	5,915
Impairment of available-for-sale investments	8(c)	89	1,389
Gain on disposal of property, plant and equipment		(83)	(103)
Zakat provision	13	14,644	12,322
Income attributable to non-controlling interest		90,646	88,602
Financial charges		49,209	60,002
Provision for employees' terminal benefits		5,931	5,918
Changes in fair value of derivatives financial instruments		(1,315)	(2,840)
Income from investments in Murabaha		(232)	(32)
Share in loss of joint ventures	8(a)	8,473	12,291
		498,656	493,426
Changes in operating assets and liabilities			
Accounts receivable		(9,075)	117,857
Prepayments and other receivables		(32,667)	18,472
Amounts due from related parties		(56,537)	(26,900)
Inventories		46,905	32,385
Accounts payable		(20,419)	(23,189)
Accruals and other payables		31,488	(43,176)
Amounts due to related parties		2,349	(825)
Cash from operations		460,700	568,050
Financial charges paid		(49,209)	(60,002)
Zakat paid	13	(11,500)	(14,483)
Employees' terminal benefits paid		(1,451)	(1,877)
Net cash from operating activities		398,540	491,688
INVESTING ACTIVITIES			
Net movement in Murabaha investments		797	(5,968)
Proceeds from disposal of property, plant and equipment		113	327
Investments		-	(104,430)
Purchase of property, plant and equipment	10	(36,214)	(154,072)
Net cash used in investing activities		(35,304)	(264,143)

The attached notes 1 to 27 form part of the consolidated financial statements.

Alujain Corporation (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2016

	<i>Note</i>	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
FINANCING ACTIVITIES			
Repayment of long term loans		(260,180)	(231,860)
Net movement in short-term loans		-	(73,221)
Net movement in non-controlling interest		(22,791)	(22,790)
Net cash used in financing activities		(282,971)	(327,871)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		80,265	(100,326)
Cash and cash equivalents at beginning of the year		308,426	408,752
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		388,691	308,426
MAJOR SUPPLEMENTAL NON-CASH INFORMATION			
Share of loss of a joint venture absorbed during the year	8(a)	6,700	6,000
Provision for zakat settled against margin deposit	13	-	7,139

The attached notes 1 to 27 form part of the consolidated financial statements.

Alujain Corporation (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

At 31 December 2016

	<i>Share capital SR '000</i>	<i>Statutory reserve SR '000</i>	<i>Retained earnings SR '000</i>	<i>Cumulative changes in fair values of derivatives SR '000</i>	<i>Total SR '000</i>
Balance at 31 December 2014	692,000	39,993	204,090	(18,584)	917,499
Net income for the year	-	-	106,386	-	106,386
Transfer to statutory reserve	-	10,638	(10,638)	-	-
Fair value adjustments	-	-	-	13,597	13,597
Balance at 31 December 2015	692,000	50,631	299,838	(4,987)	1,037,482
Net income for the year	-	-	112,727	-	112,727
Transfer to statutory reserve	-	11,273	(11,273)	-	-
Fair value adjustments	-	-	-	5,496	5,496
Balance at 31 December 2016	692,000	61,904	401,292	509	1,155,705

The attached notes 1 to 27 form part of the consolidated financial statements.

Alujain Corporation (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

1 ACTIVITIES

Alujain Corporation (the “Company” or “Parent Company”) is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia under Ministerial Decision No. 694, dated 15 Jamad Thani 1412H, corresponding to 21 December 1991. The Company obtained its Commercial Registration No. 4030084538 on 3 Rajab 1412H, corresponding to 7 January 1992. The Parent Company is listed on the Saudi Stock Exchange.

The objectives of the Parent Company are to promote and invest in metal and petrochemical industries and other industrial projects.

The head office of the Company is located in Jeddah and no branches registered under Company’s commercial registration.

During the year 2015, the subsidiary company’s (“NATPET”) Propylene and Polypropylene Complex in Yanbu Industrial City remained shut down for a period of 32 days started 22 January 2015 for planned turnaround procedures.

2 BASIS OF PREPARATION AND CONSOLIDATION

2.1 BASIS OF PREPARATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (hereinafter referred to together as the “Group”). All material inter-group transactions and balances have been eliminated on consolidation.

The consolidated financial statements are expressed in Saudi Riyals, being the functional currency of the Parent Company and have been rounded off to the nearest thousand Saudi Riyals, unless otherwise specified.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary, National Petrochemical Industrial Company – a Closed Saudi Joint Stock Company (“NATPET”), (collectively “the Group”) in which the Company owns 57.40% (31 December 2015: 57.40%) ownership interest. NATPET is in the business of manufacturing and selling polypropylene. NATPET polypropylene (PP) complex in Yanbu industrial city commenced commercial production on 6 August 2010.

All material inter-group transactions and balances have been eliminated on consolidation.

The consolidated statement of income in these consolidated financial statements includes the results of operations of NATPET, for year then ended, and the consolidated balance sheet includes the assets and liabilities of NATPET, as at 31 December 2016. The Parent Company has control over the operations and management of NATPET. Hence, NATPET has been considered as a subsidiary and consolidated in these consolidated financial statements.

Subsidiary

Subsidiary is a company in which the Group has, directly or indirectly, long term investment comprising an interest of more than 50% in the voting capital or over which it exerts control. Subsidiaries are consolidated from the date the Group obtains control until the date that such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets that are not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from Parent Company’s shareholders' equity.

2 BASIS OF PREPARATION AND CONSOLIDATION (continued)

2.3 NEW COMPANIES REGULATIONS

The Ministry of Commerce and Investment commenced the implementation of the new Companies Regulations effective 25 Rajab 1437H corresponding to 2 May 2016 ("the effective date"). The new regulations shall replace the Companies Regulations promulgated by Royal Decree No. M/6 dated 22 Rabi'I 1385H and it shall supersede all provisions that are inconsistent therewith. Companies existing as at the effective date of the regulations shall make all necessary amendments to their Article of Association / By Laws to comply with the requirements of the provisions of the new companies regulations within a period of one year of the effective date of the companies' regulations.

The Company is in the process to make the necessary amendments to the Company's By Laws as required by the new regulations. Management intends to complete all formalities within the grace period granted by the new regulations (24 Rajab 1438H corresponding to 21 April 2017). Accordingly, these financial statements have been prepared in accordance with the old Companies Regulations.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Group for the preparation of the consolidated financial statements are in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

The significant accounting policies adopted are as follows:

Accounting convention

The financial statements have been prepared under the historical cost convention on the accrual basis of accounting except for derivative financial instruments which are stated at fair value.

Use of estimate

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable

Accounts receivable are stated at original invoice amount less provision for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. Any subsequent recoveries of amounts previously written-off are credited in the consolidated statement of income.

Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average method. The cost of finished products include the cost of raw materials, labour and production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Allowance is made whenever necessary for obsolete and slow moving inventories.

Investment in associates

The Group's investment in associates is accounted for under the equity method of accounting. An associate is an entity over which the Group exercises significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in associate is carried in the consolidated balance sheet at cost adjusted by the changes in the Group's share of net assets of the associate. The consolidated statement of income reflects the share of the results of operation of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any change and discloses this, when applicable, in the consolidated statement of changes in shareholder's equity. Unrealised profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of interest in an associate. When the Group's share of losses in associate equals or exceeds its interest in the associate company, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The financial statements of the associates are prepared for the same period as the Parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in joint venture

Investments in joint venture are accounted for using the equity method of accounting and are initially recognized at cost. The Group's share of its joint ventures post-acquisition income or losses is recognized in the consolidated statement of income and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in joint ventures equals or exceeds its interest in the joint ventures, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Available-for-sale investments

Investments which are neither bought with the intention of being held to maturity nor for trading purposes are classified as available-for-sale and included under non-current assets unless they are intended to be sold in the next fiscal year. These investments are initially recognized at cost and are subsequently re-measured at fair value at each reporting date as follows:

- Fair values of quoted securities are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments; and
- Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities or is based on the expected discounted cash flows. If the fair value as mentioned above is not available, the cost shall be the most appropriate, subjective and reliable alternative for the fair value of the securities. Accordingly, the Group carries unquoted securities at cost less impairment.

Cumulative adjustments arising from revaluation of these investments, if any, are reported as separate component of equity as fair value reserve until the investment is disposed.

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, if any.

Murabaha investments

Murabaha investments include investment with banks and other short-term highly liquid investments with original maturities of three months or more but not more than one year from the purchase date.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease.

Expenditure for repair and maintenance are charged to consolidated statement of income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

The cost of planned turnaround are deferred and amortized over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of the planned turnaround, then the previously unamortized deferred costs are immediately expensed and the new turnaround costs are amortized over the period likely to benefit from such cost.

Deferred charges

Costs that are not of benefit beyond the current period are charged to the consolidated statement of income, while costs that will benefit future periods are capitalized. Deferred charges, in the consolidated balance sheet, include certain indirect construction costs which are amortized over periods which do not exceed seven years.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Non-financial assets subject to amortization 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-financial assets other than intangible assets 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 periods. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income. Impairment losses recognized on intangible assets are not reversible.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Derivative financial instruments and hedging

The Group uses derivative financial instruments (interest rate swaps) to hedge its risks associated with interest rate fluctuations and such derivative financial instruments are classified as cash flow hedges. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the consolidated statement of income.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documents include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting period for which they were designated.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for by taking the gain or loss on the effective portion of the hedging instrument directly in equity, while any ineffective portion is recognized immediately in the consolidated statement of income.

Amounts taken to equity are transferred to consolidated statement of income when the hedged transaction affects profit or loss such as when the hedged financial income or financial expense is recognized.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in equity remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings

Borrowings are recognized equivalent to the proceeds received, net of transaction costs and front end fees incurred. 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 consolidated statement of income. Upfront fee paid on borrowings is amortized over term of the loan.

Accounts payable and accruals

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

Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

Zakat

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the consolidated statement of income. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized.

The Group withhold taxes on certain transactions with non- resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income tax law.

Operating leases

Rental expenses under operating leases are charged to the consolidated statement of income over the period of the respective lease.

Foreign currency transactions

Foreign currency transactions are translated into Saudi Riyal 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 at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income, except for the qualify cash flow hedge.

Employees' end of service benefits

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated years of service at the balance sheet date.

Revenue recognition

Revenue represents the invoiced value of goods supplied by the Group during the year. Revenue from sales of goods are recognized when the significant risk and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Revenue are shown net of discounts and transportation expenses.

Expenses

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of income unless required or permitted by generally accepted accounting principles in Kingdom of Saudi Arabia.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

Alujain Corporation (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

4 ACCOUNTS RECEIVABLE

	2016	2015
	SR'000	SR'000
Trade receivables	208,134	199,059

As at 31 December 2016, none of the trade receivables were impaired. Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable.

5 PREPAYMENTS AND OTHER RECEIVABLES

	2016	2015
	SR'000	SR'000
Advance to suppliers	30,983	4,943
Prepayments	12,141	13,261
Margin deposits	28,614	21,865
Customs duty receivable	9,818	9,447
Employees advance	3,456	2,829
	85,012	52,345

6 RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the year and the related balances at the year end:

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transactions</i>		<i>Balances</i>	
		2016	2015	2016	2015
		SR'000	SR'000	SR'000	SR'000
<i>Amounts due from related parties</i>					
<i>Affiliates</i>					
Hidada Company Limited	Expenses charged by the Group	11	58	58	36
Saudi Cable Company	Sales/ expenses charged to / by the Group	321	261	323	643
Natpet Schulman	Expenses charged to / by the Group	171	271	-	227
Bonar Natpet	Sales / expenses charged by the Group	47,910	47,285	65,302	30,988
	Loss absorption (note 8(a)(i))	6,700	6,000		
	Short term loan (note 8(a)(i))	30,000			
<i>Shareholder</i>					
Safra Company Limited	Advance balance paid by the Company	9,052	-	15,610	-
	Expenses charged to the Company	4,255	-		
<i>Associate</i>					
Zain Industries Company	Expenses paid on behalf of an affiliate	84	60	6,000	6,000
				87,293	37,894

Alujain Corporation (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

6 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Related party	Nature of transaction	Amount of transactions		Balances	
		2016 SR'000	2015 SR'000	2016 SR'000	2015 SR'000
<i>Amounts due to related parties</i>					
<i>Affiliates</i>					
Natpet Schulman	Expenses charged to / by the Group	-	-	327	-
Safra Company Limited	Purchase of material/ expenses charged to the Group	-	4,707	-	109
Saudi Bulk Transportation	Expenses charged to the Group	10,566	-	1,342	-
Al Jabr Talke Limited	Expenses charged to the Group	7,764	-	759	-
Xenel Industries Limited	Expenses charged to the Group	6,779	6,198	428	398
Board of Directors	Remunerations – Parent Company	1,065	1,747	-	-
	Remunerations – Subsidiary	10,602	9,481	-	-
				<u>2,856</u>	<u>507</u>

7 INVENTORIES

	2016 SR'000	2015 SR'000
Finished goods	42,259	87,328
Raw materials	36,364	39,877
Work in progress	2,583	3,115
Spare parts	125,278	122,869
	<u>206,484</u>	<u>253,189</u>
Less: Allowance for slow moving inventories	(270)	(70)
	<u>206,214</u>	<u>253,119</u>

Movement in the allowance for slow moving inventories was as follows:

	2016 SR'000	2015 SR'000
At 1 January	70	70
Charge during the year	200	-
	<u>270</u>	<u>70</u>

At 31 December 2016

8 INVESTMENTS

	2016 SR'000	2015 SR'000
Investment in joint venture (note 8(a))	67,491	68,826
Investment in an associate (note 8(b))	9,055	9,055
Available-for-sale investments (note 8(c))	56,250	56,339
	132,796	134,220

8(a) Investment in joint ventures consists of the following:

	2016 SR'000	2015 SR'000
Bonar Natpet Company (see note (i) below)	16,014	16,148
Natpet Schulman Specialty Plastic Compounding L.L.C. (see note (ii) below)	51,477	52,678
	67,491	68,826

- (i) The subsidiary company ("NATPET") has signed a joint venture agreement with an entity based in the Netherlands to set up a manufacturing plant in Yanbu to produce staple and fibre and non-woven textiles. NATPET owns a 50% stake in joint venture. The joint venture obtained its commercial registration in October 2012. The joint venture has signed a loan agreement with Saudi Industrial Development Fund (SIDF) during 2013 amounting to SR 76.6 million in order to finance the construction of its project. NATPET has provided corporate guarantee of 50% to SIDF for the loan. The loan withdrawn by the joint venture as at 31 December 2016 amounting to SR 72.6 million (2015: 72.6 million). During the period, NATPET provided a short term loan to Bonar Natpat (a Joint Venture) to meet its financing requirements amounting to SR 30 million. The loan is interest free and repayable within one year. The loan is presented under 'amounts due from related parties'.

The movement in the investment in joint venture during the year, is as follows:

	2016 SR'000	2015 SR'000
At 1 January	16,148	21,937
Addition during the year (see note below)	6,700	6,000
Share in loss of joint venture	(6,834)	(11,969)
Expenses charged by related party	-	180
At 31 December	16,014	16,148

During the year, NATPET absorbed losses and increased its investment in Bonar Natpet by an amount of SR 6.7 million (2015: SR 6 million) by transferring equivalent amount from 'Due from Bonar Natpet' (note 6).

- (ii) During 2013, the subsidiary company ("NATPET") has signed a joint venture agreement with plastic compounder based in the United States through its entity in the Netherlands to set up a manufacturing plant in Yanbu to produce polypropylene compounds. NATPET owns a 50% stake in the joint venture. The joint venture was initially registered with a capital of SR 10 million in the first quarter of 2014. However, subsequently, the joint venture increased its capital to SR 106 million and NATPET paid SR 48 million against its share of investment in the increased capital in January 2015. The joint venture obtained a commercial registration during the first quarter of 2014. As at 31 December 2016, the plant is still under construction. The joint venture expects to commence its operation during the year ended 31 December 2017. The joint venture has signed a loan agreement with SIDF during 2015 amounting to SR 100 million in order to finance the construction of its project. NATPET has provided corporate guarantee of 50% of the loan amount to SIDF. Total loan withdrawn by the joint venture as at 31 December 2016 amounted to SR 16.9

Alujain Corporation (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

8 INVESTMENTS (continued)

million (2015: Nil). Further, the joint venture has approved facilities of SR103 million from SAMBA Financial Group. The Company has provided corporate guarantee of 50% of the loan amount. Total loan withdrawn by the joint venture as at 31 December 2016 amounted to SR 2 million (2015: Nil).

The movement in the investment in joint venture during the year, is as follows:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
At 1 January	52,678	5,000
Additional investment during the year	-	48,000
Share in loss of joint venture	(1,639)	(322)
Expense charged by related party	438	-
At 31 December	<u>51,477</u>	<u>52,678</u>

8(b) The Company's investment in an associate represents its equity ownership in Zain Industries Company ("Zain"). The Company has an ownership percentage of 49.38% as at 31 December 2016 (2015: 49.38%). Zain started commercial operations during late 2010. During the period, the Company has decided to increase its ownership interest in Zain from 49.38% to 98.75% by purchasing it from existing partners in respect of the additional investment. The Group has advanced SR 9.04 million, as part of initial contribution to its additional investment in Zain. The formation of share purchase agreement and other legal formalities are in progress at the reporting date. The Group does not have and never had other than temporary control over Zain, therefore, the Group never consolidated the financial statements of Zain. Accordingly, contribution to the additional investment is presented under 'amounts due from related parties'.

8(c) Available-for-sale investments consist of the following:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Arabian Industrial Fibers Company (Ibn Rushd) (note (i) below)	-	89
Siluria Technologies Company (note (ii) below)	56,250	56,250
At 31 December	<u>56,250</u>	<u>56,339</u>

(i) This represents the Parent Company's investment in a Saudi Closed Joint Stock Company with 0.113% share of capital. The fair value of the investments could not be determined, therefore, this investment is accounted for at cost less impairment. The movement in the investment during the year, is as follows:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
At 1 January	89	1,478
Impairment	(89)	(1,389)
At 31 December	<u>-</u>	<u>89</u>

(ii) During 2015, the subsidiary company ("NATPET") invested in Series E preference shares of a US based private entity, Siluria Technologies, for purchase consideration of USD 15 million (SR 56.25 million) and classified the investment as available-for-sale. The fair value of the investment could not be determined, therefore, investment is accounted for at cost.

Alujain Corporation (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

9 DEFERRED CHARGES

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
At 1 January	9,891	16,138
Amortisation during the year	(6,247)	(6,247)
At 31 December	<u>3,644</u>	<u>9,891</u>

Alujain Corporation (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

10 PROPERTY, PLANT AND EQUIPMENT

a) The estimated useful lives of the assets for the calculation of depreciation are as follows:

Plant and equipment	3 - 20 years	Buildings	20 years
Computer	3 - 4 years	Furniture and fixtures	5 - 10 years
Leasehold improvements	3-10 years	Motor vehicles	4 years
Office equipment	5 - 10 years	Laboratory and safety tools	5 - 10 years

	<i>Plant and equipment SR '000</i>	<i>Buildings SR '000</i>	<i>Computer SR '000</i>	<i>Furniture and fixtures SR '000</i>	<i>Leasehold improvements SR '000</i>	<i>Motor vehicles SR '000</i>	<i>Office equipment SR '000</i>	<i>Laboratory and safety tools SR '000</i>	<i>Total 2016 SR '000</i>	<i>Total 2015 SR '000</i>
Cost:										
At the beginning of the year	3,029,857	34,146	23,165	4,512	2,998	7,436	2,752	888	3,105,754	3,069,184
Additions (see note below)	18,955	-	713	7	15,928	437	10	164	36,214	154,072
Disposals	-	-	(18)	-	-	(194)	-	-	(212)	(511)
Amortization (see note (a))	-	-	-	-	-	-	-	-	-	(116,991)
At the end of the year	<u>3,048,812</u>	<u>34,146</u>	<u>23,860</u>	<u>4,519</u>	<u>18,926</u>	<u>7,679</u>	<u>2,762</u>	<u>1,052</u>	<u>3,141,756</u>	<u>3,105,754</u>
Depreciation:										
At the beginning of the year	778,979	9,659	18,045	4,237	2,665	3,630	2,578	159	819,952	739,901
Charge for the year	203,877	1,775	1,051	109	491	778	71	124	208,276	197,329
Relating to disposals	-	-	(18)	-	-	(164)	-	-	(182)	(287)
Amortization (see note (a))	-	-	-	-	-	-	-	-	-	(116,991)
At the end of the year	<u>982,856</u>	<u>11,434</u>	<u>19,078</u>	<u>4,346</u>	<u>3,156</u>	<u>4,244</u>	<u>2,649</u>	<u>283</u>	<u>1,028,046</u>	<u>819,952</u>
Net book amounts:										
At 31 December 2016	<u>2,065,956</u>	<u>22,712</u>	<u>4,782</u>	<u>173</u>	<u>15,770</u>	<u>3,435</u>	<u>113</u>	<u>769</u>	<u>2,113,710</u>	
At 31 December 2015	<u>2,250,878</u>	<u>24,487</u>	<u>5,120</u>	<u>275</u>	<u>333</u>	<u>3,806</u>	<u>174</u>	<u>729</u>		<u>2,285,802</u>

Alujain Corporation (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

10 PROPERTY, PLANT AND EQUIPMENT (continued)

- a) This relates to turnaround and catalyst cost of previous plant turnaround, fully amortized as a result of turnaround in the previous year (see note 1).
- b) The plant and machinery are mortgaged with the Saudi Industrial Development Fund (SIDF) and a second charge by other commercial banks as security against the term loan received from them (see note 12).

11 ACCRUED AND OTHER LIABILITIES

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Accrued expenses	86,570	80,836
Accrued purchases	65,124	55,388
Advances from customers	1,946	4,505
Other liabilities	34,756	16,179
	188,396	156,908

12 LONG TERM LOANS

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Commercial banks' syndication loan (a)	632,780	777,960
Public Investment Fund (PIF) loan (b)	300,000	375,000
Saudi Industrial Development Fund (SIDF) loan (c)	-	40,000
Others	21,645	21,645
	954,425	1,214,605
Less: Deferred financial charges	(6,116)	(10,160)
	948,309	1,204,445
Less: Current portion of long term loans	(235,125)	(260,180)
Non-current portion of long term loans	713,184	944,265

The maturity profile of long term loans is as follows;

Year End	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
2016	-	260,180
2017	235,125	235,125
2018	275,690	275,690
2019	215,565	215,565
2020	155,045	155,045
2021	73,000	73,000
	954,425	1,214,605

12 LONG TERM LOANS (continued)

- (a) In July 2013, the subsidiary company (“NATPET”) signed an Islamic Facility Agreement of SR 1 billion with a Syndication of Commercial Banks. The proceeds of this facility were used to fully repay the Islamic Bridge Facility loan of SR 974 million. The loan carries borrowing cost at commercial rates. This facility is secured through second charge on NATPET’s plant and machinery. NATPET has entered into a concurrent interest rate swap contract with local commercial banks to hedge the variable interest rate cash flows on the commercial banks’ syndication loan (see note 14). The term loan repayments are spread from 2013 to 2021.
- (b) The subsidiary company (“NATPET”) has signed a loan agreement with Public Investment Fund (PIF) on 23 June 2008 for a loan of USD 125 million (SR 468.75 million) which was fully drawn in 2008. NATPET signed an additional loan agreement with PIF on 5 January 2010 for an amount of USD 75 million (SR 281.25 million) which was fully drawn during 2010. The term loan is repayable in 20 bi-annual repayments which started in June 2011. The facility’s payment obligations rank parri passu with the claim of all NATPET’s other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law.
- (c) The subsidiary company (“NATPET”) has signed a loan agreement with SIDF in August 2006 for an amount of SR 400 million which was fully drawn. The SIDF loan carries upfront fees amounting to SR 30 million, which was recorded as deferred financial charges and is being amortized over the term of the loan on a straight line basis. The SIDF loan is fully repaid during the year.

13 ZAKAT AND INCOME TAX

Charge for the year

The zakat charge for the year is based on the separate financial statements of the Parent Company and its subsidiary.

The zakat charge consists of:

	2016	2015
	SR’000	SR’000
Current year provision	14,644	12,322

Movements in provision during the year

The movement in the zakat provision for the year was as follows:

	2016	2015
	SR’000	SR’000
At the beginning of the year	12,794	22,094
Provided during the year	14,644	12,322
Paid during the year	(11,500)	(14,483)
Adjusted against margin deposit	-	(7,139)
At the end of the year	15,938	12,794

13 ZAKAT AND INCOME TAX (continued)

Status of assessments

The Parent Company – Alujain Corporation (a Saudi Joint Stock Company)

The Parent Company's Zakat status for the year 2002 is final and obtained the final zakat certificate.

The Parent Company filed its zakat return for the years 2003 through 2007. The tax authorities issued its assessment for the said years and claimed additional zakat difference of SR 5.4 million. The Company objected to the said assessments and has lodged the bank guarantee against the additional liability. The appeal is currently lodged with the Higher Appeal Committee.

The Parent Company filed its zakat return for the years 2008 through 2010. The tax authorities issued its assessment for the said years and claimed additional zakat difference of SR 16.87 million. The company objected to the said assessments and has lodged a bank guarantee against the additional liability. The appeal is currently lodged with the Higher Appeal Committee.

The Parent Company filed its zakat return for the years 2011 and 2012. The tax authorities issued its assessment for the said years and claimed additional zakat difference of SR 6.7 million. The Company objected to the said assessments and has lodged the bank guarantee against the additional liability. The appeal is currently lodged with the Higher Appeal Committee.

Assessment for the years 2013 through 2015 are currently under review with the tax authorities.

Subsidiary – National Petrochemical Industrial Company (a Saudi Closed Joint Stock Company)

The subsidiary company ("NATPET") filed its Zakat returns for the years ended 31 December 1999 to 2005. The GAZT issued the final Zakat assessment for the years ended 31 December 1999 to 2005 and claimed additional Zakat differences, withholding tax ("WHT") and delay fine liability of SR 8.6 million. NATPET objected against the said assessment which was transferred to the Preliminary Objection Committee ("POC") for review and decision. The POC issued its decision by which Zakat and WHT differences were reduced to SR 7.4 million. NATPET filed an appeal against the POC's decision with the Higher Appeal Committee ("HAC"). The HAC issued its decision regarding NATPET's appeal for the years ended 31 December 1999 to 2005 by which Zakat and WHT differences were reduced to SR 7 million. NATPET filed a petition with the Board of Grievances ("BOG") against the HAC's decision. The BOG issued its ruling, which supported the HAC point of view. NATPET filed a plea against the said BOG decision at the Royal Court. The Royal Court issued its decision, by which the case was referred back to the BOG to restudy the NATPET's petition.

NATPET filed its Zakat returns for the years ended 31 December 2006 to 2008. The GAZT issued the Zakat assessment for the years from 2006 to 2008 based on a field audit and claimed additional Zakat differences and WHT liability of SR 12 million. NATPET objected against the said assessment and settled the WHT and related delay fine liability of SR 9 million, under protest, which was transferred to the Preliminary Objection Committee. The POC issued its decision by which the differences were reduced to SR 111,613. NATPET filed an appeal against the Preliminary Objection Committee's decision with the HAC, which supported the POC's point of view. NATPET filed a petition with the BOG against the said HAC decision. The said petition is still under study by the BOG.

NATPET filed its Zakat returns for the years ended 31 December 2009 to 2012. The GAZT issued a preliminary assessment for the year ended 31 December 2012, and claimed additional Zakat differences of SR 800,000. NATPET objected against the said assessment, which is still under review by the GAZT till to date.

NATPET has filed its Zakat return for the years ended 31 December 2013, 2014 and 2015, and obtained the unrestricted Zakat certificate for the year ended 31 December 2015. The GAZT has not issued the assessment to date.

At 31 December 2016

14 DERIVATIVE FINANCIAL INSTRUMENT

The subsidiary company ("NATPET") entered into an interest rate swap (the "Swap Contract"), with local commercial banks to hedge future adverse fluctuation in interest rates on its long term borrowings. NATPET designated the Swap Contract, at its outset, as a cash flow hedge.

The notional amount of the Swap Contracts at 31 December 2016 is SR 552 million (2015: SR 685 million). The Swap Contract is intended to effectively convert the interest rate cash flow on the long term loans from a floating rate to a fixed rate, during the entire tenor of the loan agreements.

At 31 December 2016, the Swap Contracts had a positive fair value of SR 770 thousand (2015: SR 10 million negative), based on the valuation determined by a model and confirmed by NATPET's bankers. Such fair value is included in non-current assets (2015: non-current liabilities) in the consolidated balance sheet with a corresponding credit to the changes in fair value of derivatives in the shareholders' equity accounts. NATPET charged an amount of SR 1.3 million as a gain (2015: SR 2.8 million) to the consolidated statement of income, being the portion of the interest rate swap not designated for hedging.

15 CAPITAL

The Parent Company's share capital is divided into 69.2 million shares of SR 10 each (2015: 69.2 million shares of SR 10 each).

16 STATUTORY RESERVE

As required by the Company's By-law, 10% of the net income for the year has been transferred to statutory reserve. The Parent Company may resolve to discontinue such transfers when the reserve totals 50% of the share capital. The reserve is not available for distribution.

17 SELLING AND DISTRIBUTION EXPENSES

	<i>2016</i>	<i>2015</i>
	<i>SR'000</i>	<i>SR'000</i>
Salaries and wages	7,838	8,324
Warehouse management	8,820	6,515
Public relation and publicity	1,637	2,526
Travel and accommodation	585	676
Utilities and services	449	302
Subscriptions and office supplies	271	228
Depreciation	57	40
Legal and professional fees	-	13
Other expenses	949	893
	20,606	19,517

At 31 December 2016

18 GENERAL AND ADMINISTRATION EXPENSES

	<i>2016</i> SR'000	<i>2015</i> <i>SR'000</i>
Salaries and wages	41,489	40,257
Legal and professional fees	2,822	2,202
Information technology	2,728	2,329
Travel and accommodation	1,721	1,792
Rent	1,542	1,542
Depreciation	1,248	1,916
Public relation and publicity	1,378	4,401
Utilities and services	821	984
Other expenses	4,607	2,747
	58,356	58,170

19 EARNING PER SHARE

Earnings per share on income from main operations is calculated by dividing the income from main operations by the weighted average number of shares in issue during the year. Earnings per share on net income is calculated by dividing the net income by the weighted average number of shares in issue during the year.

20 DIVIDENDS

On 23 October 2016, corresponding to 22 Muharam 1438 H, the Board of Directors of the Company proposed cash dividends to shareholders of SR 0.5 per share for the year ended 31 December 2016 amounting to SR 34.6 million, which represents 5% of total paid up capital.

On 12 November 2016 corresponding to 12 Safar 1438 H, the Board of Directors of the Company have agreed to increase the proposed cash dividends earlier declared on 23 October 2016 from SR 0.5 per share to SR 1 per share to have total amount of proposed cash dividends SR 69.2 million, which represents 10% of total paid up capital.

21 SEGMENT INFORMATION

The Group conducts its business in Saudi Arabia (one geographical region) and is mainly engaged in production of Polypropylene (PP) for various industrial use.

22 COMMITMENTS AND CONTINGENCIES

- a) The subsidiary company ("NATPET") has various operating leases for its land on which NATPET plant has been built, offices and warehouses. Rental expenses for the year ended 31 December 2016 amounted to SR 3.3 million (2015: SR 4.8 million). Future rental commitments under these operating leases are as follows:

Years ending 31 December	<i>2016</i> SR'000	<i>2015</i> <i>SR'000</i>
2016	-	4,419
2017	559	559
After 2017	12,306	12,194
	12,865	17,172

At 31 December 2016

22 COMMITMENTS AND CONTINGENCIES (continued)

- b) NATPET has entered into an interest rate swap contract to hedge its interest rate risk on long term loans (see note 12).
- c) As at 31 December 2016, NATPET has contingent liabilities related to letters of guarantee amounting to SR 264 million (2015: SR 264 million).
- d) See note 13 for zakat contingency.
- e) NATPET has also given guarantees to its joint ventures (see note 12).
- f) During 2015, NATPET received a claim amounting to SR 28.69 million from an energy service provider in respect of under-utilization of energy capacity relating to prior years. The subsidiary company believes that the service provider has no right to claim the amount and intends to object against the claimed amount. The management of the subsidiary company is confident that their contention will prevail and expects based on the advice of its in house legal counsel, a favourable outcome arising from objection.
- g) Parent Company has submitted a bank guarantee amounting to SR 28.6 million (2015: SR 21.7 million) against its appeal to GAZT assessment on which a margin deposit of SR 28.6 million (2015: SR 21.7 million) was paid.

23 RISK MANAGEMENT

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. Floating rate instruments expose the Group to cash flow interest rate risk, whereas fixed interest rate instruments expose the Group to fair value interest risk. The Group is subject to interest rate risk on its interest bearing liabilities, including long term loans. The management limits Group's interest rate risk by monitoring changes in interest rates in the currencies in which its interest bearing liabilities are denominated.

As stated in note 14, the Group has entered into various interest rate swap contracts to hedge its interest rate risk on its term loans. The Group's hedging strategy in respect of its interest rate exposures is disclosed in note 3.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. Group's five largest customers account for 78% of outstanding accounts receivable at 31 December 2016 (2015: 78%).

With respect to credit risk arising from the other financial assets of the Group, including bank balances and cash, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount as disclosed in the consolidated balance sheet.

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 an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

As at 31 December 2016 and 2015, all of the Group's financial liabilities other than long term loans (see note 12) are contractually due and payable within 12 months from the year end and the Group expects to have adequate funds available to do so.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than SR and US Dollars, during the year. Accordingly, the Group is not exposed to significant foreign currency risk.

24 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Group's financial assets consist of cash and bank balances and receivables and its financial liabilities consist of long term loans and payables.

The fair values of financial instruments are not materially different from their carrying values.

25 KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of trade accounts receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due, based on historical recovery rates. Any difference between the amounts actually collected in future years and the amounts expected will be recognised in the consolidated statement of income.

Impairment of inventories

Inventories are held at the lower of cost and market value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and an allowance applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

Useful lives of property, equipment and furniture

Group's management determines the estimated useful lives of its property, equipment and furniture for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

26 BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements have been approved by the Board of Directors on 16 February 2017, corresponding to 19 Jumada I 1438H.

27 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective 1 January 2017, the Company will prepare their financial statements in accordance with under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"). Upon IFRS adoption, the Company will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards for the reporting periods starting 1 January 2017, where in general, a Company is required to determine its IFRS accounting policies and apply these retrospectively to determine its financial position under IFRS.