MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

Crowe Horwath™
Al Azem & Al Sudairy
CPA's & Consultants
Member Crowe Horwath International

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

TO: THE SHAREHOLDERS
MIDDLE EAST SPECIALIZED CABLES COMPANY
A Saudi Joint Stock Company

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of **MIDDLE EAST SPECIALIZED CABLES COMPANY (the "Company ") and its subsidiary (collectively the "Group"),** which comprise the consolidated statement of financial position as at 31 December 2018, and 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.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are 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 Matters

We draw attention to the following:

- Note (1) of the consolidated financial statements which describes that the extra ordinary General Assembly of the subsidiary in Jordan "MESC for Medium and High Voltage Cables Company" decided in their Meeting dated on October 11, 2017 to liquidate the company and appointed a liquidator to complete the necessary government procedures. As a result of that, Middle East Specialized Cables Company (MESC KSA) lost control over this investment. Consequently, MESC KSA stopped consolidating MESC for Medium and High Voltage Cables Company from October 11, 2017 and considered as discontinued operations. Our opinion is not modified in respect of this matter.

- Note (12) of the consolidated financial statements which describes that the Board of Directors decided on August 5, 2018 to recommend to the extra ordinary General Assembly to reduce the Company's capital from SR 600 million to SR 400 million, therefore reducing the number of Company's shares from 60 million shares to 40 million shares by cancelling 20 million shares. A reduction of SR 200 million to amortized the accumulated losses. On November 4, 2018 the extra ordinary General Assmbly approved Board of Directors' recommendation related to reduction of Company's capital. Our opinion is not modified in respect of this matter.

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INDEPENDENT AUDITOR'S REPORT ***(Continued)***
MIDDLE EAST SPECIALIZED CABLES COMPANY
A Saudi Joint Stock Company

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.

Implementation of IFRS 15 "Revenue from contracts with customers"	
Key audit matter	**How the matter was addressed in our audit**
The Group adopted IFRS 15 "Revenue from contracts with customers" with effect from 1 January 2018 and this new standard supersedes the requirements of IAS 18 "Revenue". Management performed a detailed analysis of each type of revenue contract to identify differences between the requirements of the two standards, identify the changes required to be made to existing accounting policies and determine the transition adjustments and consequential changes to processes and controls required particularly in connection with the separation of different performance obligations that there may be within a given contract. Management also assessed the additional disclosures required to be made by the new standard in the consolidated financial statements. We considered this a key audit matter as revenue is a key financial statement item and performance metric and the application of IFRS 15 can require judgment by management and the use of significant assumptions.	We performed the following procedures relation to the implementation of IFRS 15: • Reviewed management's detailed analysis of its various revenue streams and how the new accounting standard impacts the Group; • Gained an understanding of management's approach to the implementation of any changes to accounting policy; • Obtained an understanding of the nature of revenue contracts used by the Group for each significant revenue stream, tested a sample of representative sales contracts to confirm our understanding and assess whether or not management's application of IFRS 15 requirements was in accordance with the accounting standard; • Tested relevant processes and controls established by management to ensure appropriate recognition of revenue; • Consulted with our accounting technical specialists on certain judgmental positions taken by management. We also reviewed the adequacy of the Group's disclosures included in note 5.5 to the accompanying consolidated financial statements in relation to implementation of the new accounting standard.
Refer to note (5.5) for the accounting policy.	

Key Audit Matters *(Continued)*

Implementation of IFRS 9 "Financial instruments"	
Key audit matter	**How the matter was addressed in our audit**
The Group adopted IFRS 9 "Financial instruments" with effect from 1 January 2018 and this new standard supersedes the requirements of IAS 39 "Financial instruments: Recognition and Measurement". IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. Management has determined that in most significant impact of the new standard on the Group's financial statements related to the calculation of the allowance for the impairment of trade receivables. As at 31 December 2018 carrying value of trade receivables amounted to SAR 427.3 million (2017: SAR 458.6 million) and the allowance for impairment of trade receivables amounted to SAR 54.3 million (2017: SAR 28.9 millions). The Group assesses at each reporting date whether the financial assets carried at amortized cost are credit-impaired. The Group's management has applied a simplified expected credit loss ("ECL") model to determine the allowance for impairment of trade receivables. The ECL model involves the use of various assumptions, macros-economic factors and study of historical trends relating to the Group's trade receivables collections experience. We considered this a key audit matter due to the judgements and estimates involved in the application of the expected credit loss model.	We performed the following procedures in relation to the implementation of IFRS 9: • Reviewed management's assessment of the impact of IFRS 9 in terms of classification and measurement of its financial assets and liabilities, and understood the approach taken towards implementation. We specifically considered the validity of management's conclusion that the main area of impact was in respect of trade receivables impairment, using our experience and knowledge of similar entities; • Compared the ECL model developed by management to that required by IFRS 9 and reviewed the reasonableness of the methodology in comparison to accepted best practice. We also tested the arithmetical accuracy of the model; • Tested key assumptions such as those used to calculate the likelihood of default and the subsequent loss on default, by comparing to historical data. We also considered the incorporation of forward looking factors (predominantly economic) to reflect the impact of future events on expected credit losses; • Involved our accounting subject matter specialists to review the methodology used in the ECL model; and compared this against accepted best practice. We also reviewed the adequacy of the Group's disclosures included in notes 5.4 and 5.5 and note 9 to the accompanying consolidated financial statements.
Refer to note (5.4 and 5.5) for the accounting policy and note (9) for related disclosures.	

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INDEPENDENT AUDITOR'S REPORT *(Continued)*
MIDDLE EAST SPECIALIZED CABLES COMPANY
A Saudi Joint Stock Company

Key Audit Matters ***(Continued)***

Valuation of inventory	
Key audit matter	**How the matter was addressed in our audit**
As at 31 December 2018, the Group's inventories balance was SR 128.9 million (2017: SR 158.9 million) net of allowance for slow moving inventories of SR 33.4 million (2017: SR 21.9 million) Inventories are stated at the lower of cost and net realizable value. The Managemnent reassess allowance for slow moving inventories in consediration of the nature and useful life of inventory to writte of the inventory cost override the amount of realizable value. We considered valuation of inventories as a key audit matter due to the significant management judgment involved in determining the allowance for slow moving inventories and the level of inventories write down required based on net realizable value assessment.	We performed the following procedures in relation to valuation of inventory: • Considering the appropriateness of allowance for slow moving inventories as per the Group policies and assessing compliance with applicable accounting standards; • Testing the design and effectiveness of internal controls implemented by the Group through the inventory cycle; • Testing the net realizable value of finished goods inventories by considering actual sales post at yearend and the assumptions used by the management to check whether inventories are valued at the lower of cost and net realizable value.
Refer to note (5.17) for the accounting policy and note (10) for related disclosures.	

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include 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 will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available 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 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 the International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Regulations for Companies and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs that are 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 that are 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.

INDEPENDENT AUDITOR'S REPORT *(Continued)*
MIDDLE EAST SPECIALIZED CABLES COMPANY
A Saudi Joint Stock Company

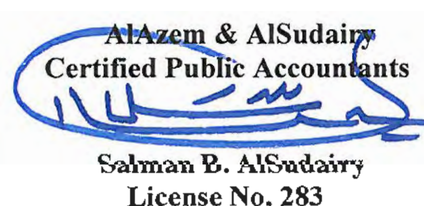
Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

- 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 exists 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 disclosures in the consolidated financial statements or, if such disclosures are 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.

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 year 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.



Salman B. AlSudairy
License No, 283

23 Rajab 1440H (March 30, 2019)
Riyadh, Kingdom of Saudi Arabia

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	Note	**December 31, 2018 SR**	December 31, 2017 SR
ASSETS			
Non-current assets			
Property, plant and equipment	7	**195,220,572**	214,389,540
Intangible assets	8	**2,448,625**	2,631,799
Non-current accounts receivable	9	**36,980,043**	38,579,942
Total non-current assets		**234,649,240**	255,601,281
Current assets			
Inventories	10	**128,983,208**	158,941,167
Accounts receivable	9	**368,447,172**	428,693,558
Cash and cash equivalents	11	**15,684,038**	14,183,359
Total current assets		**513,114,418**	601,818,084
TOTAL ASSETS		**747,763,658**	857,419,365
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**400,000,000**	600,000,000
Statutory reserve	13	**28,985,180**	28,985,180
Accumulated losses		**(44,111,743)**	(163,697,048)
Total equity		**384,873,437**	465,288,132
Non-current liabilities			
Long-term loans	14.1	**39,088,798**	3,142,845
Employees' end of service benefits	15	**17,802,472**	23,271,321
Total non-current liabilities		**56,891,270**	26,414,166
Current liabilities			
Current portion of long-term loans	14.1	**6,517,111**	92,936,220
Short-term loans	14.2	**76,751,478**	75,527,320
Accounts payable	16	**206,492,353**	182,998,214
Zakat provision	18	**16,196,822**	14,214,126
Dividends payable		**41,187**	41,187
Total current liabilities		**305,998,951**	365,717,067
TOTAL EQUITY AND LIABILITIES		**747,763,658**	857,419,365

The accompanying notes from (1) to (34) form an integral part of these consolidated financial statements

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	**December 31, 2018 SR**	December 31, 2017 SR
Continuing operations			
Sales		**591,857,056**	675,118,828
Cost of sales		**(544,492,038)**	(585,368,905)
Gross profit		**47,365,018**	89,749,923
Selling and marketing expenses	19	**(63,482,698)**	(12,991,427)
General and administrative expenses	20	**(47,626,978)**	(44,208,535)
Other expenses		**-**	(48,123)
Net (loss) profit before finance charges and zakat		**(63,744,658)**	32,501,838
Finance charges	21	**(6,167,746)**	(7,199,585)
Net (loss) profit before zakat		**(69,912,404)**	25,302,253
Zakat	18	**(10,200,000)**	(10,200,000)
Net (loss) profit for the year from continuing operations	30	**(80,112,404)**	15,102,253
Discontinued operations			
Loss for the year from discontinued operations	31	**-**	(8,327,967)
Net (loss) profit for the year		**(80,112,404)**	6,774,286
Other comprehensive income / (loss)			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurement gain (loss) of employees' end of service benefits		**1,666,000**	(508,640)
Item that may be reclassified subsequently to profit or loss:			
Net fair value (loss) gain on available for sale investments		**-**	(4,537,348)
Other comprehensive income (loss) for the year		**1,666,000**	(5,045,988)
Total comprehensive (loss) income for the year		**(78,446,404)**	1,728,298
Net (loss) profit for the year attributable to:			
Owners of the Company		**(80,112,404)**	12,502,017
Non-controlling interests		**-**	(5,727,731)
		(80,112,404)	6,774,286
Total comprehensive (loss) income for the year attributable to:			
Owners of the Company		**(78,446,404)**	7,456,029
Non-controlling interests		**-**	(5,727,731)
		(78,446,404)	1,728,298
(Loss) earnings per share	23		
Basic		**(2.00)**	0.31
Diluted		**(2.00)**	0.31
(Loss) earnings per share – continuing operations	23		
Basic		**(2.00)**	0.38
Diluted		**(2.00)**	0.38

The accompanying notes from (1) to (34) form an integral part of these consolidated financial statements

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

	Attributable to owners of the Company						
	Share capital SR	Statutory reserve SR	Accumulated losses SR	Investment revaluation reserve SR	Total SR	Non-controlling interests SR	Total equity SR
Balance at January 1, 2017	**600,000,000**	**28,985,180**	**(175,690,425)**	**4,537,348**	**457,832,103**	**(13,567,289)**	**444,264,814**
Profit for the year	-	-	12,502,017	-	**12,502,017**	(5,727,731)	**6,774,286**
Other comprehensive loss for the year	-	-	(508,640)	(4,537,348)	**(5,045,988)**	-	**(5,045,988)**
Total comprehensive income for the year	-	-	**11,993,377**	**(4,537,348)**	**7,456,029**	**(5,727,731)**	**1,728,298**
Disposal of subsidiary	-	-	-	-	-	19,295,020	**19,295,020**
Balance at December 31, 2017	**600,000,000**	**28,985,180**	**(163,697,048)**	-	**465,288,132**	-	**465,288,132**
Impact of adoption of IFRS 9	-	-	(1,968,291)	-	**(1,968,291)**	-	**(1,968,291)**
Loss for the year	-	-	(80,112,404)	-	**(80,112,404)**	-	**(80,112,404)**
Other comprehensive income for the year	-	-	1,666,000		**1,666,000**	-	**1,666,000**
Total comprehensive loss for the year	-	-	(78,446,404)	-	**(78,446,404)**	-	**(78,446,404)**
Capital reduction (note 12)	(200,000,000)	-	200,000,000	-	-	-	-
Balance at December 31, 2018	**400,000,000**	**28,985,180**	**(44,111,743)**	-	**384,873,437**	-	**384,873,437**

The accompanying notes from (1) to (34) form an integral part of these consolidated financial statements

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

	Note	**December 31, 2018 SR**	December 31, 2017 SR
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) profit for the year		**(80,112,404)**	6,774,286
Adjustments:			
Depreciation and amortization		**22,620,564**	31,276,915
Allowance (reversal) for doubtful debts		**35,410,858**	(18,311,244)
Finance charges		**6,167,746**	11,552,957
Loss on disposal of property, plant and equipment		**6,640**	368,954
Loss on disposal of intangible assets		**75,903**	-
Allowance against amounts due from subsidiary		**2,120,236**	20,955,980
Reversal of provision for losses of subsidiary		**-**	(26,105,027)
Increase (decrease) in employees' end of service benefits		**(3,802,849)**	374,096
Impairment of property, plant and equipment		**191,869**	189,257
Zakat expenses		**10,200,000**	10,200,000
Operating cash flows before changes in working capital		**(7,121,437)**	37,276,174
Changes in working capital			
Accounts receivable		**22,346,900**	44,508,251
Inventories		**29,957,959**	26,771,714
Accounts payable		**30,979,395**	(32,927,828)
Cash generated from operations		**76,162,817**	75,628,311
Finance charges paid		**(13,303,723)**	(15,562,061)
Zakat paid		**(8,217,304)**	(8,308,398)
Net cash generated from **operating activities**		**54,641,790**	51,757,852
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(2,568,435)**	(13,518,657)
Purchase of intangible assets		**(974,399)**	(1,835,185)
Net cash outflow on disposal of subsidiary	29	**-**	(1,338,753)
Net cash used in investing activities		**(3,542,834)**	(16,692,595)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net decrease on short-term loans		**1,224,158**	(13,807,325)
Repayment of long-term loans		**(50,822,435)**	(33,921,433)
Net cash used in financing activities		**(49,598,277)**	(47,728,758)
Net increase (decrease) in cash and cash equivalents		**1,500,679**	(12,663,501)
Cash and cash equivalents at the beginning of the year		**14,183,359**	26,846,860
Cash and cash equivalents at the end of the year		**15,684,038**	14,183,359
Supplementary information for non-cash transactions:			
Impact of adopting of IFRS 9		**1,968,291**	-

The accompanying notes from (1) to (34) form an integral part of these consolidated financial statements

1. ACTIVITIES

Middle East Specialized Cables Company ("MESC") ("the Company") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010102402 dated 10 Jumada Awal 1413H (corresponding to 4 November 1992).

The Company and its subsidiary (collectively "the Group") are engaged in the production and sale of flexible electric, coaxial, rubber and nylon coated wires and cables, telephone cables for internal extensions, computer cables, safety and anti-fire wires and cables and control and transmission of information cables.

The address of the Company's registered office is as follows:

Al Bait project, Building No. 1
Salahuddin Street
PO Box 585
Riyadh 11383
Kingdom of Saudi Arabia

The Company had the following subsidiary and investments as at 31 December 2018. The financial statements of this subsidiary are consolidated and the investments are recorded at fair value in these consolidated financial statements.

		Current legal ownership %		
Subsidiary/ Investments	**Legal status**	**Dec. 31, 2018**	Dec. 31, 2017	**Country of Incorporation**
Middle East Specialized Cables Company- Jordan (MESC Jordan)	Joint Stock Company	19.9	19.9	Jordan
MESC for Medium and High Voltage Cables Company*	Closed Joint Stock Company	57.5	57.5	Jordan
MESC - Ras Al-Khaimah	Limited Liability Company	100	100	United Arab Emirates

* The Extra Ordinary General Assembly of the subsidiary in Jordan "MESC for Medium and High Voltage Cables Company" decided in their Meeting dated on October 11, 2017 to liquidate the Company. As a result of that, Middle east specialized Cables Co (MESC KSA) lost control of MESC for Medium and High Voltage Cables Company. Consequently, MESC KSA stopped consolidating MESC for Medium and High Voltage Cables Company from October 11, 2017 and considered as discontinued operation.

Going concern

The Board of Directors has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future for a period of at least 12 months from the approval of the consolidated financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

2. BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on the historical cost basis except for the defined employee benefit obligations that have been assessed actuarially as described in the significant accounting policies..

The consolidated financial statements are presented in Saudi Riyals (SR), which is the Group's functional currency, and all values are rounded to the nearest Riyal, except where otherwise indicated.

3. BASIS OF CONSOLIDATION

Business combinations
Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value with the exception of liabilities related to employee benefit arrangements which are recognized and measured in accordance with IAS 19.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

3. BASIS OF CONSOLIDATION (Continued)

Subsidiaries

Subsidiaries are entities controlled by the Company. Control is achieved when the Company:

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

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

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

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

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

A change in the ownership interest of a subsidiary, without loss of control, is recorded in the statement of changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Loss of control

If the Company loses control over its subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value. When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

Transactions eliminated on consolidation

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

4. USE OF JUDGMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.
The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Useful lives and residual values of property, plant and equipment and intangible assets
An estimate of the useful lives and residual values of property, plant and equipment and intangible assets is made for the purposes of calculating depreciation and amortization respectively. These estimates are made based on expected usage for useful lives. Residual value is determined based on experience and observable data where available.

Employee defined benefit plans
Employee defined benefit liabilities are determined using an actuarial valuation which requires estimates to be made of the various inputs. These estimates have been disclosed in note 15.

Provision of expected credit loss
The expected credit loss provision is determined by reference to a combination of factors to ensure that financial assets are not overpriced due to the probability that they will not be collected, including their quality, age, credit rating and collateral. Economic data and indicators are also taken into account.

Impairment of non-financial assets
An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the last five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested.

The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Provision of slow moving inventory
Inventories are stated at the lower of cost and net realizable value. Adjustments are made to reduce the cost of inventories to net recoverable amount, if necessary.
Influencing factors includes changes in inventory demand, technological changes, deterioration of quality and other quality matters. Accordingly, the Group considers these factors and takes them into account to calculate the provision of idle stock and slow movement. Any adjustments that may result from the difference in these factors are periodically reviewed.

4. USE OF JUDGMENTS AND ESTIMATES (Continued)

Fair value measurement

Fair value is 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or the liability.

The principal or the most advantageous market must be accessible by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or the liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.
All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy. This is described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 New standards, interpretations, and amendments adopted by the Group

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. The nature and effect of these changes are disclosed below.

IFRS 15 Revenue from contracts with Customers

The Group has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported for comparative periods under IAS 18. There is no impact of adopting IFRS 15.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 9 Financial instruments

The Group has elected to apply the exemption in IFRS 9 paragraph 7.2.15 relating to transition for classification and measurement, and accordingly has not restated comparative periods in the year of initial application. Accordingly, any adjustments to carrying amounts of financial assets or liabilities are recognized at the beginning of the current reporting period, with the difference recognized in opening retained earnings. Therefore, financial assets are not reclassified in the statement of financial position for the comparative period and provisions for impairment of accounts receivable have not been restated in the comparative period.
The details of accounting policies under IAS 39 are disclosed separately if they are different from those under IFRS 9 and impact of changes is disclosed below.

5.2 Revenue

Revenue is measured based on the consideration specified in a contract with customer and excludes amount collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or service to a customer. The principles in IFRS 15 are applied using the following five steps:

***Step 1**: The Group accounts for a contract with a customer when:*

- The contract has been approved and the parties are committed;
- Each party's rights are identified;
- Payment terms are defined;
- The contract has commercial substance; and
- Collection is probable.

***Step 2:** The Group identify all promised goods or services in a contract and determines whether to account for each promised good or service as a separate performance obligation. A good or service is distinct and is separated from other obligations in the contract if both:*

- the customer can benefit from the good or service separately or together with other resources that are readily available to the customer; and
- the good or service is separately identifiable from the other goods or services in the contract.

***Step 3:** The Group determine the transaction price, which is the amount of consideration it expects to be entitled to in exchange for transferring promised goods or services to a customer.*

***Step 4:** The transaction price in an arrangement is allocated to each separate performance obligation based on the relative standalone selling price of the good or service being provided to the customer.*

***Step 5**: Revenue is recognized when control of the goods or services is transferred to the customer. The Group transfers a good or service when the customer obtains control of that good or service. A customer obtains control of a good or service if it has the ability to direct the use of and receive the benefit from the good or service.*

In comparative year, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is 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 Group has concluded that it is the principal in all of its revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks. The Group has applied IFRS 15 using the cumulative effect method and there is no impact of adopting IFRS 15.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.2 Revenue (Continued)

Significant accounting judgements and estimates

The following is a description, accounting policies and significant judgements of the principal activities from which the Group generates revenue.

Sales of goods

Revenue is recognized when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer.

5.3 Financial instruments

The Group recognizes a financial asset or a financial liability in its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group recognizes a financial instrument at its fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial assets

IFRS 9 introduces new classification and measurement requirements for financial assets. IFRS 9 requires all financial assets to be classified and subsequently measured at either amortized cost or fair value. The classification depends on the business model for managing the financial asset and the contractual cash flow characteristics of financial asset, determined at the time of initial recognition.

Financial assets are classified into the following specified categories under IFRS 9:

- Debt instruments at amortized cost;
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets at fair value through profit and loss (FVPL).

Financial assets classified as amortized cost

Debt instruments that meet the following conditions are subsequently measured at amortized cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

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

If a financial asset does not meet both of these conditions, it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this best reflects the way the business is managed and information is provided to management. In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.3 Financial instruments (Continued)

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How management evaluates the performance of the portfolio;
- Whether the management's strategy focus on earning contractual commission income;
- The degree of frequency of any expected asset sales;
- The reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Income is recognized on an effective interest basis for debt instruments measured subsequently at amortized cost. Interest is recognized in the consolidated statement of profit or loss.

Debt instruments that are subsequently measured at amortized cost are subject to impairment.

Financial assets designated as FVOCI with recycling

Debt instruments that meet the following conditions are subsequently measured at FVOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial instruments measured at FVOCI, commission income and impairment losses or reversals are recognized in consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. All other changes in the carrying amount of these instruments are recognized in other comprehensive income and accumulated under the investment revaluation reserve. When these instruments are derecognized, the cumulative gains or losses previously recognized in consolidated statement of other comprehensive income are reclassified to the consolidated statement of profit or loss.

Financial assets classified as FVPL

Investments in equity instruments are classified as at FVPL, unless the Group designates an investment that is not held for trading as at FVOCI on initial recognition.

Debt instruments that do not meet the amortized cost of FVOCI criteria are measured at FVPL. In addition, debt instruments that meet the amortized cost criteria but are designated as at FVPL to avoid accounting mismatch are measured at fair value through income statement. A debt instrument may be designated as at FVPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instrument as FVPL since the date of initial application of IFRS 9 (i.e. 1 January 2018).

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.3 Financial instruments (Continued)

Debt instruments are reclassified from amortized cost to FVPL when the business model is changed such that the amortized cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVPL on initial recognition is not allowed.

Financial assets at FVPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in consolidated statement of profit or loss.

Commission income on debt instruments as at FVPL is included in the consolidated statement of profit or loss.

Dividend income on investments in equity instruments at FVPL is recognized in the consolidated statement of profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 15 Revenue from Contracts with Customers.

Investment in equity instruments designated as FVOCI

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVOCI. Designation as at FVOCI is not permitted if the equity investment is held for trading.

A financial asset or financial liability is held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in consolidated statement of other comprehensive income and accumulated in other reserves. Gain and losses on such equity instruments are never reclassified to consolidated statement of profit or loss and no impairment is recognized in income statement. Investment in unquoted equity instruments which were previously accounted for at cost in accordance with IAS 39, are now measured at fair value. The cumulative gain or loss will not be reclassified to income statement on disposal of the investments.

Dividends on these investments are recognized in statement of income when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

Investment revaluation reserve includes the cumulative net change in fair value of equity investment measured at FVOCI. When such equity instruments are derecognized, the related cumulative amount in the fair value reserve is transferred to retained earnings.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.3 Financial instruments (Continned)

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses (ECL) on debt instruments that are measured at amortized cost or at FVOCI, lease receivables, trade receivables, as well as on loan commitments and financial guarantee contracts. No impairment loss is recognized for investments in equity instruments. The amount of expected credit losses reflects changes in credit risk since initial recognition of the respective financial instrument.

The Group applies the simplified approach to calculate impairment on trade receivables and this always recognizes lifetime ECL on such exposures. ECL on these financial assets are estimated using a flow rare based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group applies the general approach to calculate impairment. Lifetime ECL is recognized when there has been a significant increase in credit risk since initial recognition and 12 month ECL is recognized the credit risk on the financial instrument has not increased significantly since initial recognition. The assessment of whether credit risk of the financial instrument has increased significantly since initial recognition is made through considering the change in risk of default occurring over the remaining life of the financial instrument.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default for financial assets, this is represented by the assets' gross carrying amount at the reporting date. Exposure at default for off balance sheet items is arrived at by applying a credit conversion factor to the undrawn portion of the exposure.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, finance lease receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The Group recognizes an impairment gain or loss in the consolidated statement of profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVOCI, for which the loss allowance is recognized in consolidated statement of other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.3 Financial instruments (Continued)

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset or substantially all the risk and rewards of ownership to another entity. If the Group neither transfer nor retains substantially all the risks and reward of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities

Financial liabilities carried at amortized cost have been classified and measured at amortized cost using the effective yield method.

For financial liabilities that are designated as at FVPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in consolidated statement of other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in consolidated statement of profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to consolidated statement of profit or loss.

The liability credit reserve includes the cumulative changes in the fair value of the financial liabilities designated as at fair value through profit or loss that are attributable to changes in the credit risk of these liabilities and which would not create or enlarge accounting mismatch in income statement. Amount presented in liability credit reserve are not subsequently transferred to consolidated statement of profit or loss. When such investments are derecognized, the related cumulative amount in the liability credit reserve is transferred to retained earnings. Since the date of initial application of IFRS 9 (i.e. 1 January 2018), the Group has also not designated any financial liability as at FVPL.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

5.4 Changes in accounting policy

a) IFRS 9 financial instruments

Reclassification from loans and receivables to financial assets at amortized cost

Financial assets classified as loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4 Changes in accounting policy (Continued)

Measurement of financial instruments

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The adoption of the ECL requirements of IFRS 9 resulted increase in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to Retained earnings.

The impact of the change in impairment methodology on the group's equity is SAR 34,723,664. The impact on consolidated statement of profit or loss for the year ended 31 December 2018, resulting in increases in selling and marketing expenses amounting to SAR 32,755,373.

b) IFRS 15 Revenue from contracts with customers

Under IAS 18, the Group recognized revenue from sale of goods when a customer obtains controls of the goods at a point in time i.e. on delivery, which is in line with the requirements of IFRS 15. As a result, there is no impact of adopting 'IFRS 15 Revenue from Contracts with Customers'.

Under IFRS 15, any earned consideration that is conditional should be recognized as a contract asset rather than receivable.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.5 Impact on the consolidated financial statements

The Group adopted IFRS 15 and IFRS 9 using the modified retrospective method. The Group recognized the cumulative effect of initially applying the new revenue and financial instrument standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The following tables summarizes impacts of adopting IFRS 15 and IFRS 9 on the Group's consolidated financial statements: (There is no impact of adopting IFRS 15)

Consolidated statement of financial position as at 31 December 2018:

	As reported	Adjustments	Balances without adoption of IFRS 15 and IFRS 9
Assets:			
Non-current assets			
Property, plant and equipment	195,220,572	-	195,220,572
Intangible assets	2,448,625	-	2,448,625
Non-current accounts receivable	36,980,043	-	36,980,043
Total non-current assets	**234,649,240**	-	**234,649,240**
Current assets			
Inventories	128,983,208	-	128,983,208
Accounts receivable	368,447,172	(34,723,664)	403,170,836
Cash and cash equivalent	15,684,038		15,684,038
Total current assets	**513,114,418**	**(34,723,664)**	**547,838,082**
Total assets	**747,763,658**	**(34,723,664)**	**782,487,322**
EQUITY AND LIABILITIES			
Share capital	400,000,000	-	400,000,000
Statutory reserve	28,985,180	-	28,985,180
Accumulated losses	(44,111,743)	(34,723,664)	(9,388,079)
Total equity	**384,873,437**	**(34,723,664)**	**419,597,101**
Non-current liabilities			
Long-term loans	39,088,798	-	39,088,798
Employees' end of service benefits	17,802,472	-	17,802,472
Total non-current liabilities	**56,891,270**	-	**56,891,270**
Current liabilities			
Current portion of long-term loans	6,517,111	-	6,517,111
Short-term loans	76,751,478	-	76,751,478
Accounts payable	206,492,353	-	206,492,353
Zakat payable	16,196,822	-	16,196,822
Dividends payable	41,187	-	41,187
Total current liabilities	**305,998,951**	-	**305,998,951**
Total Equity and Liabilities	**747,763,658**	**(34,723,664)**	**782,487,322**

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.5 Impact on the consolidated financial statements (continued)

Consolidated statement of Profit or loss for the year ended 31 December 2018

	Year ended 31 December 2018		
	As reported	**Adjustments**	**Balances without adoption of IFRS 15 and IFRS 9**
Sales	591,857,056	-	591,857,056
Cost of sales	(544,492,038)	-	(544,492,038)
Gross profit	**47,365,018**	-	**47,365,018**
Selling and marketing expenses	(63,482,698)	(32,755,373)	(30,727,325)
General and administrative expenses	(47,626,978)	-	(47,626,978)
Net loss before finance charges and zakat	**(63,744,658)**	**(32,755,373)**	**(30,989,285)**
Finance charges	(6,167,746)	-	(6,167,746)
Net loss before zakat	**(69,912,404)**	**(32,755,373)**	**(37,157,031)**
Zakat	(10,200,000)	-	(10,200,000)
Net loss for the year	**(80,112,404)**	**(32,755,373)**	**(47,357,031)**

5.6 Current versus Non-current classification

The Group presents its assets and liabilities in the consolidated statement of financial position based on a current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current assets.

A liability is current when it is:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Due to be settled within 12 months after the reporting period; or
- When there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current liabilities.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.7 Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows which can be clearly distinguished from the rest of the Group and which:

–represents a separate major line of business or geographic area of operations;
–is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
–is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.
When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

5.8 Foreign currencies

The Group's consolidated financial statements are presented in Saudi Riyals, which is the presentational and functional currency in Kingdom of Saudi Arabia.
Transactions in foreign currencies are initially recorded by the Group at their market exchange rate against the functional currency at the date the transaction first qualifies for recognition.
Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.
Differences arising on settlement or translation of monetary items are recognized in consolidated statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in consolidated statement of OCI until the net investment is disposed of, at which time, the cumulative amount is classified to consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in Consolidated statement of OCI.

5.9 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time, that is more than one year, to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. No borrowing costs are capitalized during idle periods.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in Consolidated Statement of Other Comprehensive Income and released to Consolidated Statement of Profit or Loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in Consolidated Statement of Profit or Loss in the period in which they are incurred.

5.10 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 discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.11 Leasing

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

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

5.12 Employee benefits

Employees' end of service benefits

The end-of-service benefits provision is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurements, comprising actuarial gains and losses, are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in consolidated statement of other comprehensive income in the period in which they occur. Remeasurements recognized in consolidated statement of other comprehensive income are reflected immediately in retained earnings and will not be reclassified to consolidated statement of profit or loss in subsequent periods. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs. Interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- interest expense; and
- remeasurements

The Group presents the first two components of defined benefit costs in consolidated statement of profit or loss in relevant line items. Remeasurements are presented as part of consolidated statement of other comprehensive income.

Short-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave, air tickets and sick leave that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service. The liability is recorded at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Retirement benefits

Retirement benefits made to defined contribution plans are expensed when incurred.

5.13 Zakat

Zakat is calculated and provided for by the Group in accordance with General Authority of Zakat and Tax (GAZT) regulations and is charged to consolidated statement of profit or loss. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.14 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. When spare parts are expected to be used during more than one period, then they are accounted for as property, plant and equipment.

Historical cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes accounted for on a prospective basis.

The Group applies the following annual rates of depreciation to its property, plant and equipment:

Buildings	5%
Plant and machinery	7% to 25%
Furniture, fixtures and office equipment	10% to 15%
Motor vehicles	20%

Land and capital work in progress is not depreciated.

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 net sales proceeds and the carrying amount of the asset and is recognized in consolidated statement of profit or loss.

5.15 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. The cost of intangible assets acquired in a business combination is their fair value at the effective date of the business combination. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets, which comprises software and test certificates, are amortized over a period of five years and three years respectively.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.16 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. Goodwill and assets that have indefinite useful live, for example land, are tested annually for impairment. 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.

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 consolidated statement of profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

5.17 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

5.18 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with banks, all of which are available for use by the Group unless otherwise stated and have maturities of 90 days or less, which are subject to insignificant risk of changes in values.

6. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and IFRS 16 replaces existing leases guidance including 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 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-statement of financial position model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17.

Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 01 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Others:

Management believes that the adoption of these standards, amendments and improvements will not have a material impact on the consolidated financial statements of the Group in future periods.

Amendments to IFRS (9) "Financial Instruments" related to Prepayment Features with Negative Compensation (Effective date 1 January 2019).

Amendments to IAS (28) "Investments in Associates and Joint Ventures" related to Long-term Investments in Associates and Joint Ventures (Effective date 1 January 2019).

Amendments to IAS (19) "Employee Benefits "related to Plan Amendment, Curtailment or Settlement (Effective date 1 January 2019).

Improvement to IFRS (11) "Joint Arrangements" related to Previously Held Interests in a joint operation (Effective date 1 January 2019).

Improvement to IAS (12) "Income Taxes" related to Income Tax Consequences of Payments on Financial Instruments Classified as Equity (Effective date 1 January 2019).

Improvement to IAS (23) "Borrowing Costs" related to Borrowing Costs Eligible for Capitalization (Effective date 1 January 2019).

IFRS (17) "Insurance Contracts" (Effective date 1 January 2021).

IFRIC (23) "Uncertainty over Income Tax Treatments" (Effective date 1 January 2019).

7. PROPERTY, PLANT AND EQUIPMENT

COST	Land SR	Buildings SR	Plant and machinery SR	Furniture, fixtures and office equipment SR	Motor vehicles SR	Capital work in progress SR	Total SR
January 1, 2018	8,460,313	146,026,747	345,338,543	17,385,801	7,392,391	4,957,521	529,561,316
Additions	-	81,315	864,258	452,332	-	1,170,530	2,568,435
Disposals	-	-	(1,617,980)	(25,047)	-	-	(1,643,027)
Transfers from capital work in progress	-	-	423,719	-	-	(423,719)	-
December 31, 2018	**8,460,313**	**146,108,062**	**345,008,540**	**17,813,086**	**7,392,391**	**5,704,332**	**530,486,724**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
January 1, 2018	-	62,168,674	229,680,548	15,432,102	6,528,083	1,362,369	315,171,776
Depreciation	-	6,313,784	14,215,923	776,163	233,024	-	21,538,894
Disposals	-	-	(1,613,462)	(22,925)	-	-	(1,636,387)
Impairment loss	-	-	-	-	-	191,869	191,869
December 31, 2018	-	**68,482,458**	**242,283,009**	**16,185,340**	**6,761,107**	**1,554,238**	**335,266,152**
Net Book Value :							
January 1, 2018	**8,460,313**	**83,858,073**	**115,657,995**	**1,953,699**	**864,308**	**3,595,152**	**214,389,540**
December 31, 2018	**8,460,313**	**77,625,604**	**102,725,531**	**1,627,746**	**631,284**	**4,150,094**	**195,220,572**

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

COST	Land SR	Buildings SR	Plant and machinery SR	Furniture, fixtures and office equipment SR	Motor vehicles SR	Capital work in progress SR	Total SR
January 1, 2017	10,126,503	191,054,073	503,178,085	18,768,175	10,291,430	5,170,913	738,589,179
Additions	-	9,399,926	2,941,678	327,551	-	849,502	13,518,657
Disposals	-	-	(10,842,949)	(5,143)	(973,154)	(206,405)	(12,027,651)
Transfers from capital work in progress	-	856,489	-	-	-	(856,489)	-
Disposal of subsidiary	(1,666,190)	(55,283,741)	(149,938,271)	(1,704,782)	(1,925,885)	-	(210,518,869)
December 31, 2017	**8,460,313**	**146,026,747**	**345,338,543**	**17,385,801**	**7,392,391**	**4,957,521**	**529,561,316**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
January 1, 2017	-	70,885,715	303,981,647	16,010,023	9,089,776	1,173,112	401,140,273
Depreciation	-	7,584,015	21,818,267	817,280	337,360	-	30,556,922
Disposals	-	-	(10,684,964)	(579)	(973,154)	-	(11,658,697)
Impairment loss	-	-	-	-	-	189,257	189,257
Disposal of subsidiary	-	(16,301,056)	(85,434,402)	(1,394,622)	(1,925,899)	-	(105,055,979)
December 31, 2017	-	**62,168,674**	**229,680,548**	**15,432,102**	**6,528,083**	**1,362,369**	**315,171,776**
Net Book Value :							
January 1, 2017	**10,126,503**	**120,168,358**	**199,196,438**	**2,758,152**	**1,201,654**	**3,997,801**	**337,448,906**
December 31, 2017	**8,460,313**	**83,858,073**	**115,657,995**	**1,953,699**	**864,308**	**3,595,152**	**214,389,540**

Certain items of property, plant and equipment, except land, with a net book value of SR 101 million (December 31, 2017: SR 111 million) is mortgaged as security against loans (see note 14)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

CHANGES IN ESTIMATES

During 2018, the Company conducted an operational efficiency review at its plants, which resulted in changes in the expected usage of the machineries. The machineries, which management had previously estimated a useful economic life of 14.3 years of use, is now expected to remain in production for up to 20 years from the date of purchase. The effect of these changes on current and expected depreciation expense, included in "cost of sales", was as follows:

	2018	2019	2020	2021	2022	Later
(Decrease) increase in depreciation expense	(3,581,750)	(4,520,677)	(3,372,644)	(3,660,602)	(2,669,585)	18,185,270

The allocation of depreciation expenses between cost of revenue and administrative expenses is as follows:

	2018 SR	2017 SR
Cost of sales	**20,847,575**	29,817,877
General and administrative expenses	**691,319**	739,045
December 31, 2018	**21,538,894**	30,556,922

8. INTANGIBLE ASSETS

	Software SR	**Test certificates SR**	**Total SR**
COST			
January 1, 2017	7,847,880	614,358	8,462,238
Additions	53,514	1,781,671	1,835,185
Disposal of subsidiary	(4,757,382)	-	(4,757,382)
December 31, 2017	**3,144,012**	**2,396,029**	**5,540,041**
Additions	704,416	269,983	974,399
Disposal	(1,559,017)	-	(1,559,017)
December 31, 2018	**2,289,411**	**2,666,012**	**4,955,423**
ACCUMULATED AMORTIZATION			
January 1, 2017	6,918,211	10,436	6,928,647
Amortization	421,960	298,033	719,993
Disposal of subsidiary	(4,740,398)	-	(4,740,398)
December 31, 2017	**2,599,773**	**308,469**	**2,908,242**
Amortization	298,250	783,420	1,081,670
Disposal	(1,483,114)	-	(1,483,114)
December 31, 2018	**1,414,909**	**1,091,889**	**2,506,798**
NET BOOK VALUE:			
January 1, 2017	**929,669**	**603,922**	**1,533,591**
December 31, 2017	**544,239**	**2,087,560**	**2,631,799**
December 31, 2018	**874,502**	**1,574,123**	**2,448,625**

The amortization charge has been in the line "General and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

9. ACCOUNTS RECEIVABLE

	December 31, 2018 SR	December 31, 2017 SR
Trade receivables	**360,600,498**	394,389,667
Retention receivables	**66,662,195**	64,211,674
Less: allowance for doubtful debts	**(54,287,059)**	(28,886,685)
Net trade receivables	**372,975,634**	429,714,656
Advances to suppliers	**6,422,913**	4,634,146
Prepaid expenses	**3,417,142**	3,704,926
Margin deposits	**1,491,185**	2,561,477
Employee loans	**885,566**	1,446,961
Due from former subsidiary	**45,316,333**	44,340,990
Allowance for due from former subsidiary	**(26,076,216)**	(23,955,980)
Due from related parties (note 17)	**472,092**	2,250,451
Other receivables	**522,566**	2,575,873
	405,427,215	467,273,500
Analyzed between:		
Current assets	**368,447,172**	428,693,558
Non-current assets	**36,980,043**	38,579,942
	405,427,215	467,273,500

Trade receivables:

The Group's credit period on sales of goods is between 60 to 120 days. No interest is charged on trade receivables. The Group has recognized an allowance for doubtful debts against impaired trade receivables. Allowances for doubtful debts are recognized against trade receivables based on estimated irrecoverable amounts determined by reference to the past default experience of the counterparty and an analysis of the counterparty's current financial position, where available.

The Group performs credit-vetting procedures before granting credit to new customers. These procedures are reviewed and updated on an ongoing basis.

The company has one customer which comprise 23% of the total trade receivables balance. (December 31, 2017: two customers which comprise 30%)

Movement in the allowance for doubtful debts

	December 31, 2018 SR	December 31, 2017 SR
Opening balance	**28,886,685**	49,715,400
Impact of adoption IFRS 9	**1,968,291**	-
Charged for the year	**35,410,858**	735,876
Reversed during the year	**-**	(19,047,120)
Write off during the year	**(11,978,775)**	(420,004)
Disposal of subsidiary	**-**	(2,097,467)
Closing balance	**54,287,059**	28,886,685

9. ACCOUNTS RECEIVABLE (Continued)

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 concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

The ageing of impaired trade receivables is as follows:

	December 31, 2018 SR	December 31, 2017 SR
0 to 180 days	-	-
180 to 360 days	577,860	1,958,753
360 to 720 days	7,297,157	6,266,695
Over 720 days	46,412,042	20,661,237
	54,287,059	28,886,685

Trade receivables disclosed include the amounts totaling SR 127 million (December 31, 2017: SR 187 million) that are past due at the end of the reporting period. some of these balances for the Group are secured by Letters of Credit issued by the customer's bank, and customer agreements for rescheduling the receivables.

The ageing of trade receivables that are past due is as follows:

	December 31, 2018 SR	December 31, 2017 SR
0 to 180 days	72,872,085	97,442,831
180 to 360 days	29,346,695	38,778,125
360 to 720 days	16,074,649	16,496,136
Over 720 days	8,971,386	34,477,373
	127,264,815	187,194,465

10. INVENTORIES

	December 31, 2018 SR	December 31, 2017 SR
Finished goods	79,043,721	87,863,639
Raw and packing materials	47,802,663	57,325,427
Work in process	15,602,026	16,500,401
Spare parts	8,146,140	7,140,469
Goods in transit	11,765,619	11,979,011
	162,360,169	180,808,947
Less: allowance for slow moving inventories	(33,376,961)	(21,867,780)
	128,983,208	158,941,167
Cost of inventories recognized as an expense during the year	544,492,038	585,368,905
Carrying value of inventories held at net realizable value	10,202,092	9,270,358
Inventory written of during the year	800,661	954,309

10. INVENTORIES (Continued)

Movement in the allowance for slow moving inventories:

	December 31, 2018 SR	December 31, 2017 SR
Opening balance	**21,867,780**	26,367,162
Charge for the year	**12,309,842**	3,600,807
Written off during the year	**(800,661)**	(954,309)
Disposal of subsidiary	-	(7,145,880)
Closing balance	**33,376,961**	21,867,780

11. CASH AND CASH EQUIVALENTS

	December 31, 2018 SR	December 31, 2017 SR
Cash in hand	**219,353**	286,289
Cash at banks	**15,464,685**	13,897,070
	15,684,038	14,183,359

12. SHARE CAPITAL

The Board of Directors, on 23 Thu Alqidah 1439, corresponding to August 5, 2018, decided to recommend to the Extraordinary General Assembly to reduce the Company's capital from SR 600,000,000 to SR 400,000,000, therefore reducing the number of shares of the company from 60,000,000 shares to 40,000,000 shares by canceling 20,000,000 shares. A reduction of SR 200,000,000, to absorb the accumulated losses. On 27 Thu Alqidah 1439, corresponding to August 9, 2018, the company obtained approval from the Capital Market Authority (CMA) to reduce capital.

The reduction will be subject to the approvals of the Extraordinary General Assembly. The decision of the reduction shall be effective for all the shareholders registered with the company's records at Securities Depository Center Company (EDAA) by the end of the second trading day following the Extraordinary General Meeting that the reduction decision will be made on. On 26 Safar 1440, corresponding to November 4, 2018 the Extraordinary General Assembly approved Board of Directors' recommendation related to reduction of Company's capital.

	December 31, 2018 SR	December 31, 2017 SR
40 million ordinary shares (December 31, 2017: 60 million ordinary shares) of SR 10 each	**400,000,000**	600,000,000

13. STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies, the Group has set aside 10% of its net income each year until it has built a reserve equal to 30% of the share capital. The reserve is not available for dividend distribution.

14. LOANS

14.1 Long-term loans

	December 31, 2018 SR	December 31, 2017 SR
Total loans	**45,626,797**	96,449,235
Less: debt arrangement costs on loans	**(20,888)**	(370,170)
	45,605,909	96,079,065
Less: current portion included in current liabilities	**(6,517,111)**	(92,936,220)
	39,088,798	3,142,845

The loans bear interest at a rate of 5.3% (December 31, 2017: 4.7%) and are secured by promissory notes, corporate guarantees and certain items of property, plant and equipment. The loan contract states is not due within 12 months of this date. However, the loan agreement contains certain covenants which were breached as at December 31, 2018 and December 31, 2017.

14.2 Short-term loans

	December 31, 2018 SR	December 31, 2017 SR
Bank borrowing	**21,751,478**	12,327,625
Murabaha loan	**55,000,000**	63,199,695
	76,751,478	75,527,320

Murabaha and bank borrowing bear interest at prevailing market rates being SIBOR plus a margin as stipulated in the various loan agreements. and are secured by promissory notes, corporate guarantees and certain items of property, plant and equipment.

Analysis of change in loans for the year ended December 31, 2018 was as follow:

	Long-term loans SR	Short-term loans SR	Total SR
Opening balance	96,449,235	75,527,320	**171,976,555**
Amounts raised	-	74,065,365	**74,065,365**
Amounts repaid	(50,822,438)	(72,841,207)	**(123,663,645)**
Closing balance	45,626,797	76,751,478	**122,378,275**

15. EMPLOYEES' END OF SERVICE BENEFITS

	December 31, 2018 SR	December 31, 2017 SR
Opening balance	**23,271,321**	22,388,585
Current service cost	**2,684,121**	3,275,359
Interest cost	**769,400**	931,920
Paid during the year	**(7,256,370)**	(3,833,183)
Disposal of subsidiary	**-**	-
Actuarial (gain) / loss	**(1,666,000)**	508,640
Closing balance	**17,802,472**	23,271,321

The most recent actuarial valuation was performed by a qualified actuary and was performed using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuation were as follows:

	December 31, 2018 %	December 31, 2017 %
Rate of salary increases	**3.0**	3.5
Discount rate	**4.6**	3.8

All movements in the employee defined benefit liabilities are recognized in consolidated statement of profit or loss except for the actuarial loss (gain) which is recognized in consolidated statement of other comprehensive income.

Sensitivity analyses
The sensitivity analyses presented below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. A positive amount represents an increase in the liability whilst a negative amount represents a decrease in the liability.

	December 31, 2018 SR	December 31, 2017 SR
Increase in discount rate of 1%	**(1,413,750)**	(1,890,000)
Decrease in discount rate of 1%	**1,638,750**	2,201,250
Increase in rate of salary increase of 1%	**1,650,000**	2,186,250
Decrease in rate of salary increase of 1%	**(1,447,500)**	(1,912,500)

16. ACCOUNTS PAYABLE

	December 31, 2018 SR	December 31, 2017 SR
Trade payables	**144,481,403**	122,476,221
Advances from customers	**21,364,571**	16,151,501
Accrued expenses	**14,773,350**	15,988,267
Due to a related party (note 17)	**11,904,476**	11,873,631
Provision for miscellaneous expenses	**8,611,171**	10,715,301
Directors remuneration payable	**2,737,473**	2,970,999
Other payables	**2,619,909**	2,822,294
	206,492,353	182,998,214

No interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

17. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group entered into the following trading transactions with related parties:

	December 31, 2018 SR	December 31, 2017 SR
Sales of goods	**1,322,141**	5,433,872
Purchases	**2,418,936**	5,330,921

The following balances were outstanding with related parties at the reporting date:

	December 31, 2018 SR	December 31, 2017 SR
Trade receivables	**19,712,209**	2,250,451
Trade payables	**11,904,476**	11,873,631

During the year, short-term employment benefits to key management personnel amounted to SR 8,681,427 (31 December 2017: SR 8,210,611)

18. ZAKAT PROVISION

	December 31, 2018 SR	December 31, 2017 SR
Continuing operations		
Zakat charge – current year	**10,200,000**	10,200,000
Zakat charge – prior year		-
	10,200,000	10,200,000

The movement in Zakat payable is as follows:

	December 31, 2018 SR	December 31, 2017 SR
Balance at beginning of the year	**14,214,126**	12,322,524
Charged to profit or loss	**10,200,000**	10,200,000
Paid during the year	**(8,217,304)**	(8,308,398)
Balance at end of the year	**16,196,822**	14,214,126

The significant components of the zakat base is as follows:

	December 31, 2018 SR	December 31, 2017 SR
Equity	**535,593,004**	518,033,007
Opening provisions and other adjustments	**87,984,187**	67,526,889
Book value of non-current assets	**(234,469,562)**	(251,068,252)
	389,107,629	334,491,644
Adjusted net income	**(15,979,987)**	46,114,386
Zakat base	**373,127,642**	380,606,030

The Company settles zakat for Saudi operations and investments in foreign subsidiaries separately.
The Company has received its final assessment for the years up to December 31, 2007 and received Zakat certificate. The Company has filed its zakat declaration for the years from December 31, 2008 and up to December 31, 2017 and obtained temporary Zakat certificate for 2017. No final assessment has been received from the General Authority for Zakat and Tax ("GAZT") for the years of assessment from 2008 onwards and no provision has been made for income taxation as the Group did not earn any income which was subject to income taxation.

19. SELLING AND MARKETING EXPENSES

	December 31, 2018 SR	December 31, 2017 SR
Continuing operations		
Salaries and related costs	**12,265,285**	13,093,531
Allowance / (reversal) for doubtful receivables	**35,410,858**	(18,311,244)
Freight	**5,560,191**	7,124,188
Allowance for impairment of retention receivables	**570,488**	636,758
Promotion and advertising	**7,651,761**	6,971,548
Travel	**778,743**	1,049,515
Operating lease charges	**633,552**	810,273
Others	**611,820**	1,616,858
	63,482,698	12,991,427

20. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2018 SR	December 31, 2017 SR
Continuing operations		
Salaries and related costs	**22,577,020**	22,407,333
Bank Charges	**8,811,024**	8,560,676
Allowance for receivable from share sale	**1,955,844**	-
Consultancy and professional fees	**4,065,069**	5,275,472
Allowance for loan to subsidiary	**2,120,236**	-
Debt arrangement and other costs on loans	**1,596,953**	2,016,976
Repairs and maintenance	**1,255,835**	1,392,809
Depreciation (note 7)	**691,319**	739,045
Travel	**688,003**	819,804
Amortization of intangible assets (note 8)	**1,081,670**	689,744
Operating lease charges	**577,861**	714,566
Others	**2,206,144**	1,592,110
	47,626,978	44,208,535

21. FINANCE CHARGES

	December 31, 2018 SR	December 31, 2017 SR
Continuing operations		
Finance charges on long-term loans	**3,065,055**	3,943,110
Finance charges on short-term loans	**3,102,691**	3,256,475
	6,167,746	7,199,585

No finance charges were capitalized during the year.

22. EMPLOYEE BENEFITS EXPENSES

	December 31, 2018 SR	December 31, 2017 SR
Employee defined benefit liabilities	**3,453,521**	4,207,279
Other employee benefits	**76,748,025**	82,492,598
	80,201,546	86,699,877

23. EARNINGS PER SHARE

Basic and diluted earnings per share are based on net profit attributable to owners of the Company and a weighted average number of shares issued of 40 million. Earnings per share for the comparative year have been adjusted retrospectively, to reflect the impact of the capital reduction (note 12).

	December 31, 2018 SR	December 31, 2017 SR
From continuing operations	**(2.00)**	0.38
From discontinued operations	**-**	(0.07)
	(2.00)	0.31

24. OPERATING LEASE ARRANGEMENTS

The Group incurred the following operating lease expenditure during the year:

	December 31, 2018 SR	December 31, 2017 SR
Premises	**3,163,764**	2,902,770
Vehicles	**144,580**	202,068
	3,308,344	3,104,838

The Group had the following operating lease commitments at the reporting date:

	December 31, 2018 SR	December 31, 2017 SR
Premises		
Within one year	**2,411,315**	867,929
One year to five years	**5,271,845**	3,633,715
Over five years	**11,111,536**	9,207,752
	18,794,696	13,709,396

25. CAPITAL COMMITMENTS AND CONTINGENCIES

The Group had capital commitments of SR 10.8 million (December 31, 2017: SR 0.7 million) and contingencies in the form of letters of credit and guarantees of SR 154 million (December 31, 2017: SR 156 million) at the reporting date.

26. SEGMENT INFORMATION

Information reported to the Chief Operating Decision Maker (CODM) for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The directors of the Company have chosen to organize the Group around differences in internal reporting structure.

The Group's operating segments are as follows:

- Saudi Arabia
- Jordan
- United Arab Emirates

26.1 Segment revenues and results

	2018		2017	
	Revenue SR	**(Loss) / profit before zakat SR**	**Revenue SR**	**Profit (loss) before zakat SR**
Revenue and profit by segment				
Saudi Arabia	**497,502,472**	**(70,944,967)**	593,880,849	20,654,128
Jordan	**-**	**-**	-	-
United Arab Emirates	**244,805,464**	**469,949**	253,037,981	5,566,625
Intersegment elimination	**(150,450,880)**	**562,614**	(171,800,002)	(918,500)
	591,857,056	**(69,912,404)**	675,118,828	25,302,253
Segment total assets and liabilities	**Assets SR**	**Liabilities SR**	**Assets SR**	**Liabilities SR**
Saudi Arabia	**717,384,345**	**332,510,907**	817,867,112	352,578,980
Jordan	**-**	**-**	-	-
United Arab Emirates	**324,980,862**	**152,375,725**	345,848,019	146,596,829
Intersegment elimination	**(294,601,549)**	**(121,996,411)**	(306,295,766)	(107,044,576)
	747,763,658	**362,890,221**	857,419,365	392,131,233

Segment revenues and profit / (loss) before zakat are from continuing operations only.

Segment revenues reported represent revenue generated from both external customers and related parties. All segments sell similar product ranges.

There are two customers who contributed more than 10% of the Group's total revenue.

27. FINANCIAL INSTRUMENTS

Capital management

The Group manages its capital to ensure it will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from the previous year.

The capital structure of the Group consists of equity and debt comprising issued capital, the statutory reserve, accumulated losses and loans.

Categories of financial instruments

	December 31, 2018 SR	December 31, 2017 SR
Financial assets		
Cash and bank balances	**15,684,038**	14,183,359
Loans and receivables	**395,587,160**	458,934,428
Financial liabilities		
Amortized cost	**307,485,169**	338,453,098

Market risk

The Group was exposed to market risk, in the form of interest rate risk as described below, during the period under review. There were no changes in these circumstances from the previous year.

Foreign currency risk management

The Group's significant transactions are in Saudi Riyals and United States Dollars which are pegged against the Saudi Riyal at a fixed exchange rate. Management monitors fluctuations in foreign exchange rates and manages their effect on the consolidated financial statements accordingly. The Group did not have any significant foreign currency denominated monetary assets or liabilities at the reporting date for which it was exposed to foreign currency fluctuations. Consequently, no foreign currency sensitivity analysis has been presented.

Interest rate and liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. The Group does not hedge its exposure to movements in interest rates.

27. FINANCIAL INSTRUMENTS (Continued)

Interest and liquidity rate risk management (Continued)

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would have decreased or increased by SR 611,787 (December 31, 2017: SR 858,032). The Group's exposure to interest rates has decreased during the year as a result of a decrease in interest-bearing borrowings.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows:

December 31, 2018 Details	Interest rate %	Within one year SR	One year to five years SR	Over five years SR	Total SR
Long-term loans	5.9%	**6,923,000**	**41,155,618**	-	**48,078,618**
Short-term loans	5.4%	**80,917,064**	-	-	**80,917,064**
Accounts payable	Interest free	**185,127,782**	-	-	**185,127,782**
Total		**272,967,846**	**41,155,618**	-	**314,123,464**

December 31, 2017 Details	Interest rate %	Within one year SR	One year to five years SR	Over five years SR	Total SR
Long-term loans	4.3%	64,239,867	35,952,520	-	100,192,387
Short-term loans	4.7%	79,017,839	-	-	79,017,839
Accounts payable	Interest free	166,846,713	-	-	166,846,713
Total		310,104,419	35,952,520	-	346,056,939

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Potential concentrations of credit risk consist principally of trade receivables, amounts due from a related party and short-term cash investments. Details of how credit risk relating to trade receivables is managed is disclosed in note 9. The amounts due from a related party are monitored and provision is made, where necessary, for any irrecoverable amounts. Short-term cash investments are only placed with banks with a high credit rating.

Fair value of financial instruments

The directors consider that the carrying values of the financial instruments reported in the statement of financial position approximates their fair values.

28. RETIREMENT BENEFIT INFORMATION

The Group makes contributions for a defined contribution retirement benefit plan to the General Organization for Social Insurance (GOSI) in respect of its Saudi Arabian employees. The total amount expensed during the year in respect of this plan was SR 1,767,241 (December 31, 2017: SR 1,922,257).

29. NET CASH OUTFLOW ON DISPOSAL OF SUBSIDIARY

The Group disposed of its interest in MESC for Medium and High Voltage Cables Company during 2017. The following is an analysis of the assets and liabilities over which control was lost:

	2018 SR	2017 SR
Current assets		
Inventories	-	9,301,630
Accounts receivable	-	2,774,540
Cash and cash equivalents	-	1,338,753
Non-current assets		
Property, plant and equipment	-	105,462,890
Investment in associate	-	-
Intangible assets	-	16,984
Current liabilities		
Current portion of long-term loans	-	5,676,450
Short-term loans	-	13,363,653
Accounts payable	-	64,079,390
Non-current liabilities		
Long-term loans	-	81,175,351
Employees end of service benefits	-	-
Net liabilities disposed of	-	(45,400,047)
Net consideration received	-	-
Less: non-controlling interest	-	19,295,020
Gain on disposal	-	26,105,027
Net cash outflow on disposal of subsidiary		
Net consideration received	-	-
Less: cash and cash equivalents balances disposed of	-	
		(1,338,753)
	-	(1,338,753)

30. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

	December 31, 2018 SR	December 31, 2017 SR
Net (loss) / profit for the year from continuing operations is attributable to:		
Owners of the Company	**(80,112,404)**	15,102,253
Non-controlling interests	-	-
	(80,112,404)	15,102,253
Profit / (loss) for the year from continuing operations has been arrived at after charging (crediting):		
Impairment loss on trade receivables (note 9)	**35,410,858**	735,876
Reversal of impairment loss on trade receivables	-	(19,047,120)
	35,410,858	(18,311,244)
Depreciation of property, plant and equipment	**21,538,894**	24,517,519
Amortization of intangible assets	**1,081,670**	689,745
Total depreciation and amortization	**22,620,564**	25,207,264
Employee benefit expense		
Employee defined benefit liabilities	**3,453,521**	4,207,279
Other employee benefits	**76,748,025**	79,197,070
	80,201,546	83,404,349

31. DISCONTINUED OPERATIONS

The Group disposed of its interest in MESC for Medium and High Voltage Cables Company "MESC MV" as detailed in note 29. The results of MESC MV are set out below:

	December 31, 2018 SR	December 31, 2017 SR
Revenue	-	2,907,707
Expenses	-	(16,384,721)
Net loss	-	(13,477,014)
Allowance against amounts due from subsidiary	-	(20,955,980)
Reversal of provision for losses of subsidiary	-	26,105,027
Loss of the year from discontinued operations	-	(8,327,967)
Attributable to:		
Owners of the Company	-	(2,600,236)
Non-controlling interests	-	(5,727,731)
	-	(8,327,967)
Net cash inflow from operating activities	-	5,152,553
Net cash outflow from investing activities	-	-
Net cash outflow from financing activities	-	(3,870,225)
	-	1,282,328

32. COMPARATIVE FIGURES

Comparitive amounts related to the allowance of doubtful debts amounted to SR 18,311,244 in the statement of cash flows were be reclassified from change in accounts receivable item to be presented separately in the adjustments to net income to conform with the presentation of the curent year.

33. SUBSEQUENT EVENTS

No events have been identified after the reporting period which require adjustment to, or disclosure in, these consolidated financial statements.

34. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved on 23 Rajab 1440H (Corresponding to 30 March 2019).