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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND REVIEW REPORT FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2019

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

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

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Crowe Horwath.

Al Azem & Al Sudairy Co.
CPA's & Consultants
Member Crowe Horwath International
C.R License No. 323/11/148
P.O. Box. 10504 Riyadh 11443
Kingdom of Saudi Arabia
Telephone: (011) 2175000
Facsimile : (011) 2176000
www.crowehorwath.com
Email: ch@crowehorwath.com.sa

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders
Middle East Specialized Cables Company
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of **Middle East Specialized Cables Company (the "Company") and its subsidiary (the "Group")** as at 30 June 2019, and the related interim condensed consolidated statement of profit or loss and other comprehensive income for the three and six months periods ended 30 June 2019, and the related interim condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard (34) "Interim Financial Reporting" that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" that is endorsed in the Kingdom of Saudi Arabia. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard (34) "Interim Financial Reporting" that is endorsed in the Kingdom of Saudi Arabia.

Emphasis of Matter

We draw attention to note (8) of the interim condensed 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 conclusion is not modified in respect of this matter.

العظم والسديري محاسبون ومراجعون قانونيون
License No 323/11/148
Al Azem & Al Sudairy
Certified Public Accountants

AlAzem & AlSudairy
Certified Public Accountants

Salman B. AlSudairy
License No. 283

18 Dhu Al-Hijjah 1440H (August 19, 2019)
Riyadh, Kingdom of Saudi Arabia

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2019**

	Notes	30 June 2019 (Unaudited) SR	31 December 2018 (Audited) SR
ASSETS			
Non-current assets			
Property, plant and equipment	6	185,368,023	195,220,572
Intangible assets		2,683,955	2,448,625
Right of use assets		11,410,198	-
Non-current accounts receivable		38,791,312	36,980,043
Total non-current assets		238,253,488	234,649,240
Current assets			
Inventories		117,649,566	128,983,208
Accounts receivable		332,738,590	368,447,172
Cash and cash equivalent		23,807,352	15,684,038
Total current assets		474,195,508	513,114,418
TOTAL ASSETS		712,448,996	747,763,658
EQUITY AND LIABILITIES			
Share capital	8	400,000,000	400,000,000
Statutory reserve		28,985,180	28,985,180
Accumulated losses		(60,695,036)	(44,111,743)
Total equity		368,290,144	384,873,437
Non-current liabilities			
Long-term loans		39,088,798	39,088,798
Lease liability - non current		9,521,565	-
Employees' end of service benefits		17,182,096	17,802,472
Total non-current liabilities		65,792,459	56,891,270
Current liabilities			
Current portion of long-term loans		6,537,998	6,517,111
Short-term loans		60,948,218	76,751,478
Accounts payable		189,998,981	206,492,353
Lease liability - current		1,211,546	-
Zakat payable		19,628,463	16,196,822
Dividends payable		41,187	41,187
Total current liabilities		278,366,393	305,998,951
TOTAL EQUITY AND LIABILITIES		712,448,996	747,763,658

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2019

	Note	Three months period ended		Six months period ended	
		30 June 2019 (Unaudited) SR	30 June 2018 (Unaudited) SR	**30 June 2019 (Unaudited) SR**	30 June 2018 (Unaudited) SR
Revenue		**119,165,263**	149,553,524	**233,874,530**	313,407,352
Cost of sales		**(106,354,491)**	(145,976,682)	**(210,587,465)**	(294,847,409)
Gross profit		**12,810,772**	3,576,842	**23,287,065**	18,559,943
Selling and marketing expenses		**(4,712,390)**	(8,786,252)	**(11,371,899)**	(17,736,731)
General and administrative expenses		**(10,355,912)**	(15,482,435)	**(20,655,131)**	(26,584,468)
Other income (expenses)		**13,945**	(245,653)	**(63,581)**	(250,173)
Net loss before finance charges and zakat		**(2,243,585)**	(20,937,498)	**(8,803,546)**	(26,011,429)
Finance charges		**(1,395,035)**	(1,860,354)	**(3,054,747)**	(3,584,786)
Net loss before zakat		**(3,638,620)**	(22,797,852)	**(11,858,293)**	(29,596,215)
Zakat		**(2,362,500)**	(2,550,000)	**(4,725,000)**	(5,100,000)
Net loss for the period		**(6,001,120)**	(25,347,852)	**(16,583,293)**	(34,696,215)
Item that may be reclassified subsequently to profit or loss:					
Net fair value loss from investment at fair value through other comprehensive income		-	-	-	-
Other comprehensive income for the period		-	-	-	-
Total comprehensive loss for the period		**(6,001,120)**	(25,347,852)	**(16,583,293)**	(34,696,215)
Loss per share (SR)	5				
Basic and diluted loss for the period attributable to ordinary equity holders		**(0.15)**	(0.63)	**(0.41)**	(0.87)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2019

	Share capital SR	Statutory reserve SR	Accumulated losses SR	Total equity SR
January 1, 2018 (Audited)	600,000,000	28,985,180	(163,697,048)	465,288,132
Impact of adoption of IFRS 9	-	-	(1,968,291)	(1,968,291)
Loss for the period	-	-	(34,696,215)	(34,696,215)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period	-	-	(34,696,215)	(34,696,215)
June 30, 2018 (Unaudited)	**600,000,000**	**28,985,180**	**(200,361,554)**	**428,623,626**
January 1, 2019 (Audited)	400,000,000	28,985,180	(44,111,743)	384,873,437
Loss for the period	-	-	(16,583,293)	(16,583,293)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period	-	-	(16,583,293)	(16,583,293)
June 30, 2019 (Unaudited)	**400,000,000**	**28,985,180**	**(60,695,036)**	**368,290,144**

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2019

	30 June 2019 (Unaudited) SR	30 June 2018 (Unaudited) SR
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(16,583,293)	(34,696,215)
Depreciation and amortization	10,423,582	12,115,341
Depreciation of right of use assets	407,543	-
Impairment of accounts receivable	2,869,309	693,130
Slow moving inventories	5,009,327	8,621,508
Amortization for arrangement fees	20,887	282,530
Finance charges	3,054,747	3,584,786
Loss on disposal of property, plant and equipment	836,547	-
Impairment of property, plant and equipment	308,285	280,979
Employees end-of-service benefits	1,554,421	2,627,728
Zakat expense	4,725,000	5,100,000
Operating cash flows before changes in working capital	12,626,355	(1,390,213)
Movement in working capital:		
Accounts receivable	30,491,300	(19,263,840)
Inventories	6,324,315	18,204,542
Accounts payable	(13,413,624)	44,560,313
Cash generated from operations	36,028,346	42,110,802
Finance charges paid	(5,841,490)	(7,223,037)
Employees end-of-service benefits paid	(2,174,797)	(1,942,394)
Zakat paid	(1,293,359)	-
Net cash generated from operating activities	26,718,700	32,945,371
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,202,538)	(1,408,849)
Purchase of intangible assets	(748,658)	(841,483)
Net cash used in investing activities	(1,951,196)	(2,250,332)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase on short-term loans	(15,803,260)	9,977,810
Lease Payment	(840,930)	-
Repayment of long-term loans	-	(32,615,217)
Net cash used in financing activities	(16,644,190)	(22,637,407)
Net increase in cash and cash equivalents	8,123,314	8,057,632
Cash and cash equivalents at the beginning of the period	15,684,038	14,183,359
Cash and cash equivalents at the end of the period	23,807,352	22,240,991
Supplementary information for non-cash transactions:		
Impact of adopting of IFRS 16	11,817,741	-
Impact of adopting of IFRS 9	-	1,968,291

The accompanying notes form an integral part of these interim condensed 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 & investments as at 30 June 2019. The financial statements of this subsidiary is consolidated, and the investments are recorded at fair market value in these interim condensed consolidated financial statements.

		Current legal ownership %			
Subsidiary/ Investments	**Legal status**	**June 30, 2019**	June 30, 2018	**Country of Incorporation**	**Financial Year end**
Middle East Specialized Cables Company- Jordan (MESC Jordan)	Joint Stock Company	**19.9**	19.9	Jordan	31 December
MESC for Medium and High Voltage Cables Company*	Closed Joint Stock Company	**57.5**	57.5	Jordan	31 December
MESC - Ras Al-Khaimah	Limited Liability Company	**100**	100	United Arab Emirates	31 December

2. BASIS OF PREPARATION

2.1 Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" that is endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization of Certified Public Accountants (SOCPA) and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2018 ("last annual financial statements"). They do not include all of the information required for a complete set of IFRS consolidated financial statements, however; accounting policies and selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements. IFRS 16 was implemented in this set of interim condensed consolidated financial statements. Changes to significant accounting policies are described below.

2.2 Preparation of the Financial Statements

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for the employees' end-of-service benefits provision, which has been actuarially valued as explained in the accounting policies below and available for sale investments which has been measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

2.3 Use of Judgments and Estimates

In preparing these interim condensed 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 significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual consolidated financial statements, except for new significant judgment and key sources of estimation uncertainty related to the application of IFRS 16 as explained in note 4.

3. BASIS OF CONSOLIDATION

These condensed consolidated interim financial statements comprising the condensed consolidated interim statement of financial position, condensed consolidated interim statement of profit or loss, and other comprehensive income, condensed consolidated interim statement of changes in shareholders' equity, condensed consolidated interim statement of cash flows and notes to the condensed consolidated interim financial statements of the Group include assets, liabilities and the results of the operations of the Company and its subsidiary, as set out in note (1). The Company and its subsidiary are collectively referred to as the "Group". Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control commences until the date on which control ceases. The Group accounts for the business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identified net assets acquired. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill in condensed consolidated interim statement of financial position. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Accounting policies of subsidiaries are aligned, where necessary, to ensure consistency with the policies adopted by the Group. The Company and its subsidiaries have the same reporting periods.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

The Group applies, for the first time, IFRS 16 "Rent Contracts". As required by IAS 34, the nature and effect of these changes are disclosed below.

4.1.1 Annual Improvements to IFRSs 2015–2017 Cycle

Improvement to IFRS (11) "Joint Arrangements" related to Previously Held Interests in a Joint Operation.

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

Improvement to IAS (23) "Borrowing Costs" related to Borrowing Costs Eligible for Capitalization.

4.2 Changes in significant accounting policies

Except as described below, the accounting policies applied in these Condensed Consolidated Interim Financial Statements are the same as those applied in the last annual Consolidated Financial Statements for the year ended 31 December 2018. The changes in accounting policies are also expected to be reflected in the annual Consolidated Financial Statements for the year ending 31 December 2019.

IFRS 16 - Leases
IFRS 16 supersedes 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. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

In the current period, the Group has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4.2 Changes in significant accounting policies - (Continued)

The Group elected to use the practical expedient available on transition to IFRS 16 not to reassess whether a contract contains a lease or not, allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group also adopted the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases that are expiring during 2019.
- Excluded initial direct cost from measuring the right-of-use asset at the date of initial application.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Nature of the effect of adoption of IFRS 16
Prior to adoption of IFRS 16:

Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease based on the substance of the arrangement at the inception date.

A lease was classified as a finance lease that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

In an operating lease, the leased property was not capitalized and the lease payments were recognized as operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Any prepaid and accrued amounts were recognized under prepayments and other payables, respectively.

After adoption of IFRS 16:
Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the modified retrospective method of adoption, the Group applied IFRS 16 at the date of initial application. Under modified retrospective approach right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position as at 31 December 2018. Accordingly, the comparative information is not restated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4.3 Impact on the interim condensed consolidated financial statements

The following tables summarizes impacts of adopting IFRS 16 on the Group's interim condensed consolidated financial statements:

interim Condensed consolidated statement of Profit or loss for the period ended 30 June 2019

	Three month period ended 30 June 2019			Six month period ended 30 June 2019		
	Balances without adoption of IFRS 16	Adjustments	As reported	Balances without adoption of IFRS 16	Adjustments	As reported
	SR	SR	SR	SR	SR	SR
Revenue	119,165,263	-	119,165,263	233,874,530	-	233,874,530
Cost of sales	(106,440,644)	86,153	(106,354,491)	(210,759,773)	172,308	(210,587,465)
Gross profit	**12,724,619**	**86,153**	**12,810,772**	**23,114,757**	**172,308**	**23,287,065**
Selling and marketing expenses	(4,712,390)	-	(4,712,390)	(11,371,899)	-	(11,371,899)
General and administrative expenses	(10,355,912)	-	(10,355,912)	(20,655,131)	-	(20,655,131)
Other income (expenses)	13,945	-	13,945	(63,581)	-	(63,581)
Net loss before finance charges and zakat	**(2,329,738)**	**86,153**	**(2,243,585)**	**(8,975,854)**	**172,308**	**(8,803,546)**
Finance charges	(1,248,616)	(146,419)	(1,395,035)	(2,761,741)	(293,006)	(3,054,747)
Net loss before zakat	**(3,578,354)**	**(60,266)**	**(3,638,620)**	**(11,737,595)**	**(120,698)**	**(11,858,293)**
Zakat	(2,362,500)	-	(2,362,500)	(4,725,000)	-	(4,725,000)
Net loss for the period	**(5,940,854)**	**(60,266)**	**(6,001,120)**	**(16,462,595)**	**(120,698)**	**(16,583,293)**

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4.3 Impact on the interim condensed consolidated financial statements – (Continued)

Interim condensed consolidated statement of financial position as at 30 June 2019:

	Balances without adoption of IFRS 16	Adjustments	As reported
	SR	SR	SR
ASSETS			
Non-current assets			
Property, plant and equipment	185,368,023	-	185,368,023
Intangible assets	2,683,955	-	2,683,955
Right of use assets	-	11,410,198	11,410,198
Non-current accounts receivable	38,791,312	-	38,791,312
Total non-current assets	**226,843,290**	**11,410,198**	**238,253,488**
Current assets			
Inventories	117,649,566	-	117,649,566
Accounts receivable	333,536,375	(797,785)	332,738,590
Cash and cash equivalent	23,807,352	-	23,807,352
Total current assets	**474,993,293**	**(797,785)**	**474,195,508**
TOTAL ASSETS	**701,836,583**	**10,612,413**	**712,448,996**
EQUITY AND LIABILITIES			
Share capital	400,000,000	-	400,000,000
Statutory reserve	28,985,180	-	28,985,180
Accumulated losses	(60,574,338)	(120,698)	(60,695,036)
Total equity	**368,410,842**	**(120,698)**	**368,290,144**
Non-current liabilities			
Long-term loans	39,088,798	-	39,088,798
Lease liability - non current	-	9,521,565	9,521,565
Employees' end of service benefits	17,182,096	-	17,182,096
Total non-current liabilities	**56,270,894**	**9,521,565**	**65,792,459**
Current liabilities			
Current portion of long-term loans	6,537,998	-	6,537,998
Short-term loans	60,948,218	-	60,948,218
Accounts payable	189,998,981	-	189,998,981
Lease liability - current	-	1,211,546	1,211,546
Zakat payable	19,628,463	-	19,628,463
Dividends payable	41,187	-	41,187
Total current liabilities	**277,154,847**	**1,211,546**	**278,366,393**
TOTAL EQUITY AND LIABILITIES	**701,836,583**	**10,612,413**	**712,448,996**

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

- Right-of-use assets of SAR 11,817,741 were recognized and presented separately in the consolidated statement of financial position.
- Lease liabilities of SAR 11,281,037 and presented separately in the consolidated statement of financial position.
- Prepayments of SAR 536,704 related to previous operating leases were reclassified to the right of use assets.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4.3 Impact on the interim condensed consolidated financial statements - (Continued)

Impact on the consolidated statement of financial position (increase/(decrease)) as at 1 January 2019:

	1 January 2019 SAR
Assets	
Right-of-use assets	11,817,741
Prepayments	(536,704)
	11,281,037
Liabilities	
Lease liabilities	11,281,037
	11,281,037

For the three and six months ended 30 June 2019:

- Depreciation expense increased by SAR 203,772 and SAR 407,543 respectively, relating to the depreciation of right of use assets recognized.
- Rent expense decreased by 289,925 and SAR 579,851 respectively, relating to previous operating leases.
- Finance costs increased by SAR 146,419 and SAR 293,006 respectively relating to the interest expense on additional lease liabilities recognized.

Impact on the interim condensed consolidated statement of profit or loss (increase/(decrease)) for the three and six months ended 30 June 2019:

	Three months ended 30 June 2019 SAR	Six months ended 30 June 2019 SAR
Depreciation expense (included in cost of revenue and administrative expenses)	(203,772)	(407,543)
Rent expense (included in cost of revenue and administrative expenses)	289,925	579,851
Operating profit	**86,153**	**172,308**
Finance costs	(146,419)	(293,006)
loss for the period	**(60,266)**	**(120,698)**

Amounts recognized in the statement of financial position

As at 30 June 2019, the cost of right of use assets is SAR 11,817,741 and accumulated depreciation is SAR 407,543.

For the three and six months ended 30 June 2019, the group has recognized interest expense of SAR 146,419 and SAR 293,006 respectively on lease liability and total cash flow for leases is SAR 840,930.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4.3 Impact on the interim condensed consolidated financial statements - (Continued)

Below are the new accounting policies of the Group after adoption of IFRS 16:
Leases
The Group assess whether a contract contains a lease, at inception of the contract. For all such lease arrangements the Group recognize right of use assets and lease liabilities except for the short term leases and leases of low value assets as follows:

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

Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.
In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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

Significant judgement in determining the lease term of contracts with renewal options
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

5. LOSS PER SHARE

Basic and diluted loss per share is based on the net loss for the period attributable to owners of the company of SR 16,583,293 (June 30, 2018: net loss of SR 34,696,215) divided by a weighted average number of shares in issue of 40 million. Earnings per share for the comparative period have been adjusted retrospectively, to reflect the impact of the capital reduction (note 8).

6. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately SR 1.2 million (June 30, 2018: SR 1.4 million) on property, plant and equipment in order to upgrade its manufacturing facilities.

7. DIVIDENDS

No dividends were declared during the period (June 30, 2018: nil).

8. 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

9. CAPITAL COMMITMENTS AND CONTINGENCIES

The Group had capital commitments of SR 8.4 million (December 31, 2018: SR 10.8 million) and contingencies in the form of letters of credit and guarantees of SR 140 million at the reporting date (December 31, 2018: SR 154 million).

10. RELATED PARTY TRANSACTIONS

There were no significant related party transactions in the period under review.

11. 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 geographical location of the various businesses. 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
* United Arab Emirates

11.1 Segment revenues and results

	Three months period ended		Six months period ended	
	30 June 2019	30 June 2019	30 June 2019	30 June 2019
	SR	SR	SR	SR
Revenue and profit before zakat by segment	**Revenue**	**Net profit (loss) before zakat**	**Revenue**	**Net profit (loss) before zakat**
Saudi Arabia	104,565,841	(458,634)	198,811,096	(3,182,327)
United Arab Emirates	46,089,805	(2,953,528)	86,536,554	(7,766,389)
Intersegment eliminations	(31,490,383)	(226,458)	(51,473,120)	(909,577)
	119,165,263	(3,638,620)	233,874,530	(11,858,293)
		30 June 2019		30 June 2019
		SR		SR
Segment total assets and liabilities		**Assets**		**Liabilities**
Saudi Arabia		655,650,774		286,589,780
United Arab Emirates		352,621,707		140,410,388
Intersegment eliminations		(295,823,485)		(82,841,316)
		712,448,996		344,158,852

	Three months period ended		Six months period ended	
	30 June 2018	30 June 2018	30 June 2018	30 June 2018
	SR	SR	SR	SR
Revenue and profit before zakat by segment	Revenue	Net profit (loss) before zakat	Revenue	Net profit (loss) before zakat
Saudi Arabia	118,633,638	(23,050,692)	250,581,837	(30,039,516)
United Arab Emirates	69,848,664	506,971	134,993,072	1,144,971
Intersegment eliminations	(38,928,778)	(254,131)	(72,167,557)	(701,670)
	149,553,524	(22,797,852)	313,407,352	(29,596,215)
		31 December 2018		31 December 2018
		SR		SR
Segment total assets and liabilities		Assets		Liabilities
Saudi Arabia		717,384,345		332,510,907
United Arab Emirates		324,980,862		152,375,725
Intersegment eliminations		(294,601,549)		(121,996,411)
		747,763,658		362,890,221

Segment revenue reported represents revenue generated from both external customers and related parties.

All segments sell similar product ranges.

There are two customers who contributed 27% of the Group's total revenue.

12. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved on 18 Dhu Al-Hijjah 1440H (August 19, 2019).