SAUDI PAPER MANUFACTURING COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016

SAUDI PAPER MANUFACTURING COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016

BDO Dr. Mohamed Al-Amri & Co.
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Saudi Paper Manufacturing Company
(A Saudi Joint Stock Company)
Dammam, Kingdom of Saudi Arabia

Scope of audit

We have audited the accompanying consolidated balance sheet of Saudi Paper Manufacturing Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2016 and the consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 26 which form an integral part of these consolidated financial statements. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and presented to us with all information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall consolidated financial statements' presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion such consolidated financial statements taken as a whole:

1) Present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia; and

2) Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Article of Association with respect to the preparation and presentation of consolidated financial statements.

Other matter

The consolidated financial statements for the year ended December 31, 2015 were audited by another auditor whose report dated Jumada 'I, 17, 1437 H (corresponding to February 25, 2016) contained an unqualified opinion thereon.

For Dr. Mohamed Al-Amri & Co.

M. A. AlAmri

Dr. Mohamed A. Al-Amri
Certified Public Accountant
Registration No. 60

د. محمد العمري وشركاه - محاسبون قانونيون
شركة مهنية رقم ٣٢٣/١١/٦٦
س.ت ٢٠٥٠١٠٥٨٢٢
Dammam
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

March 01, 2017 G
Jumada 'II, 2, 1438 H

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

	Note	As at December 31, 2016	2015
Assets			
Current assets			
Cash and cash equivalents	5	**24,084,181**	39,023,222
Accounts receivable	6	**240,081,470**	272,434,926
Inventories	7	**126,218,177**	233,334,087
Available-for-sale investments		**3,259,865**	3,259,865
Prepayments and other receivables	8	**94,330,408**	130,045,588
		487,974,101	678,097,688
Non-current assets			
Investment in an associate	9	**25,594,595**	24,344,595
Property, plant and equipment	10	**908,734,676**	984,213,465
Intangible assets	11	**23,936,074**	26,614,917
		958,265,345	1,035,172,977
Total assets		**1,446,239,446**	1,713,270,665
Liabilities			
Current liabilities			
Short-term borrowings	12	**107,983,463**	172,688,998
Liabilities against letter of credit refinancing facilities	12	**49,405,552**	144,106,661
Current maturity of long-term borrowings	13	**98,664,151**	116,474,813
Accounts payable		**130,117,150**	146,550,350
Accrued and other liabilities	14	**88,002,309**	97,228,432
Zakat payable	15	**1,506,741**	4,906,737
		475,679,366	681,955,991
Non-current liabilities			
Long-term borrowings	13	**486,983,649**	472,865,977
Employees end of service benefits	16	**23,456,205**	25,040,221
		510,439,854	497,906,198
Total liabilities		**986,119,220**	1,179,862,189
Equity			
Equity attributable to shareholders of the Company:			
Share capital	17	**450,000,000**	450,000,000
Statutory reserve	18	**66,248,858**	66,248,858
(Accumulated losses)/retained earnings		**(51,597,402)**	15,885,280
Currency translation differences		**(8,728,770)**	(3,966,748)
Total shareholders' equity		**455,922,686**	528,167,390
Non-controlling interest		**4,197,540**	5,241,086
Total equity		**460,120,226**	533,408,476
Total liabilities and equity		**1,446,239,446**	1,713,270,665
Contingencies and commitments	23		

The accompanying notes from 1 to 26 form an integral part of these consolidated financial statements.

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

	Note	Year ended December 31, 2016	2015
Sales	4	477,270,897	600,570,193
Cost of sales		(377,314,955)	(489,557,517)
Gross profit		99,955,942	111,012,676
Operating expenses			
Selling and marketing expenses	19	(72,210,350)	(93,395,836)
General and administrative expenses	20	(53,375,342)	(60,928,183)
Loss from operations		(25,629,750)	(43,311,343)
Other (expenses) income, net			
Financial charges, net	12,13	(31,628,627)	(36,032,962)
Share in net income of an associate	9	1,250,000	-
Other charges, net	21	(9,773,003)	(45,947,185)
Loss before zakat and non-controlling interest		(65,781,380)	(125,291,490)
Zakat	15	(1,100,004)	(1,150,000)
Loss before non-controlling interest		(66,881,384)	(126,441,490)
Non-controlling interest		(601,298)	(671,626)
Net loss for the year		(67,482,682)	(127,113,116)
Loss per share (Saudi Riyals):	22		
• Operating loss from main operations		(0.57)	(0.96)
• Net loss for the year		(1.50)	(2.82)

The accompanying notes from 1 to 26 form an integral part of these consolidated financial statements.

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

	Note	Year ended December 31, 2016	2015
Cash flows from operating activities			
Net loss for the year		**(67,482,682)**	(127,113,116)
Adjustments for non-cash items			
Provision for doubtful receivables	6	**5,628,650**	33,804,777
Provision for inventories		**-**	34,146,601
Share in net income of an associate	9	**(1,250,000)**	-
Impairment loss on goodwill		**-**	4,500.000
Depreciation and amortization	10,11	**49,928,089**	54.938,565
Gain on disposal of property, plant and equipment	10	**(148,042)**	(1,762,929)
Income applicable to non-controlling interest		**(1,043,546)**	671,626
Assets written off due to fire		**20,632,756**	-
Changes in working capital			
Accounts receivable		**21,962,784**	3,089,849
Inventories		**94,728,058**	(92,543,769)
Prepayments and other receivables		**35,715,180**	4,737,570
Accounts payable		**(16,433,200)**	56,135,720
Accrued and other liabilities		**(7,316,123)**	50,556,236
Zakat payable		**(5,309,996)**	887,100
Employees end of service benefits		**(1,584,016)**	1,184,949
Net cash generated from operating activities		**128,027,912**	23,233,179
Cash flows from investing activities			
Net change in property, plant and equipment		**21,225,106**	(24,069,674)
Additions to intangible assets		**(1,092,425)**	-
Net cash generated from / (utilized in) investing activities		**20,132,681**	(24,069,674)
Cash flows from financing activities			
Changes in short-term borrowings		**(64,705,535)**	(189,974,123)
Liabilities against letter of credit refinancing facilities		**(94,701,109)**	58,009,251
Changes in long-term borrowings		**(3,692,990)**	147,754,016
Net cash (utilized in) / generated from financing activities		**(163,099,634)**	15,789,144
Net change in cash and cash equivalents		**(14,939,041)**	14,952,649
Cash and cash equivalents at beginning of the year		**39,023,222**	24,070,573
Cash and cash equivalents at end of the year	5	**24,084,181**	39,023,222
Supplemental non-cash financial information			
Transfer of capital spare parts to property, plant and equipment		**1,200,000**	3,100,000
Transfer of computer software to intangible assets		**-**	4,077,835

The accompanying notes from 1 to 26 form an integral part of these consolidated financial statements.

SAUDI PAPER MANUFACTURING COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of changes in shareholders' equity
(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained Earnings /(accumulated losses)	Currency translation differences	Total
January 1, 2015	450,000,000	66,248,858	142,998,396	(799,572)	658,447,682
Net loss for the year	-	-	(127,113,116)	-	(127,113,116)
Currency translation adjustments	-	-	-	(3,167,176)	(3,167,176)
December 31, 2015	450,000,000	66,248,858	15,885,280	(3,966,748)	528,167,390
Net loss for the year	-	-	(67,482,682)	-	(67,482,682)
Currency translation adjustments	-	-	-	(4,762,022)	(4,762,022)
December 31, 2016	450,000,000	66,248,858	(51,597,402)	(8,728,770)	455,922,686

The accompanying notes from 1 to 26 form an integral part of these consolidated financial statements.

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

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

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

Following is the list of subsidiaries included in the Group:

Subsidiary	**Country of incorporation**	**Ownership percentage at December 31,**	
		2016	**2015**
Saudi Recycling Company	Saudi Arabia	**100%**	100%
Saudi Paper Converting Company	Saudi Arabia	**100%**	100%
Saudi Investment & Industrial Development Company	Saudi Arabia	**100%**	100%
Al Madar Paper Trading (Al Madar)	United Arab Emirates	**100%**	100%
Morocco Paper Converting Company	Morocco	**100%**	100%
Al Madar Paper Trading	Morocco	**100%**	100%
Al Madar Paper Trading	Jordan	**100%**	100%
Saudi Paper Converting Company Jordon	Jordon	**100%**	100%
Al Madar Paper	Algeria	**100%**	100%
Premier Paper Converting Company	Turkey	**100%**	100%
Al - Juthoor Paper Tissue Manufacturing Plant (Al - Juthoor)	Kuwait	**85%**	85%

A fire incident occurred on March 26, 2016 at the plant site of one of the group's subsidiaries in Riyadh, which destroyed certain items of property plant and equipment and inventories amounted to Saudi Riyals 9.5 million and Saudi Riyals 11.1 million respectively which have been written off during the year by the management. However, an insurance claim of the same amount has also been recognized as the Group is confident that it will receive the claim from the insurance company. This is included in prepayments and other receivables (note8).

One of the Group's subsidiary is dependent on financial support from the Group. The Group management intends to provide adequate financial support to such subsidiary for enabling to continue its operations and believes that this will generate positive cash flows in the future. Total assets of such subsidiary amounted to Saudi Riyals 29 million as at December 31, 2016.

2 Summary of significant accounting policies

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

2.1 Basis of preparation and consolidation

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Investments in subsidiaries are consolidated where the Group has control, which usually represents over 50% of their capitals. For the purposes of consolidation, material inter-company transactions, balances and unrealized gains and losses on transactions between Group companies are eliminated, and non-controlling interests (the Company's other partners in the consolidated subsidiary) are calculated based on the subsidiary`s net assets and net income.

2.2 Critical accounting estimates and judgments

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

2.3 Cash and cash equivalents and short-term deposits

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

2.4 Accounts receivable

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

2.5 Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses

2.6 Investments

(a) Subsidiaries

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising from acquisition of subsidiaries is reported under “Intangible assets” in the balance sheet. Goodwill is tested annually for impairment and carried at cost, net of impairment losses, if any.

(b) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

(c) Other investments

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

(d) Available-for-sale investments

Available-for-sale investments principally consist of less than 20% equity investments in certain quoted / unquoted investments. These investments are included in non-current assets unless management intends to sell such investments within twelve months from the consolidated balance sheet date.

Available-for-sale investments are initially recognized at cost and are subsequently re-measured at fair value at each reporting date as follows:

(i) Fair values of quoted securities are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments;

(ii) Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities or is based on the expected discounted cash flows; and

(iii) Fair value of unquoted securities for which there are no other indices through which the market value could be reliably determined, cost is considered the most appropriate subjective and reliable alternative for the fair value determination of such investments.

Cumulative adjustments arising from revaluation of these investments are reported as separate component of equity as fair value reserve until the investment is disposed. Losses of fair value reserve resulted from re-measured of available-for-sale investments are recognized in the consolidated income statement when management considered such losses as a permanent decline.

2.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment, if any, except land and construction in progress which are stated at cost. Depreciation is charged to the consolidated income statement, using the straight-line method, to allocate the cost of the related assets to their estimated useful lives.

	Number of years
• Buildings and land improvements	20 - 33
• Plant, machinery and equipment	10 - 25
• Furniture, fixtures and office equipment	5 - 15
• Vehicles	4 - 5

Land improvements are depreciated over shorter of useful life or lease term.

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

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

2.8 Intangible assets

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

2.9 Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset’s fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated income statement. Impairment losses recognized on goodwill are not reversible.

2.10 Borrowings

Borrowings are recognized at the proceeds received net of transaction cost incurred and are subsequently carried at amortized cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period using effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets until such time as the assets are ready for their intended use. Other borrowing costs are charged to the consolidated income statement.

2.11 Accounts payable and accruals

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

2.12 Zakat and taxes

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

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

The Company and its Saudi Arabian subsidiaries withhold taxes on certain transactions with non-resident parties as required under Saudi Arabian Income Tax Law.

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

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

2.13 Employees benefits

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

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

2.14 Sales

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

2.15 Selling, marketing and general and administrative expenses

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

2.16 Dividends

Dividends are recorded in the period in which these are approved by shareholders of the Group.

2.17 Operating leases

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

2.18 Foreign currencies

(a) Reporting currency

The consolidated financial statements of the Group are presented in Saudi Riyals which is the reporting currency of the Group.

(b) Transactions and balances

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

(c) Group companies

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

Dividends received from foreign subsidiaries are translated at the exchange rate in effect at the transaction date.

2.19 Segment reporting

(a) Business segment

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

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

(b) Geographical segment

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

3 Financial instruments and risk management

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, accounts and other receivable, investments, short-term and long-term borrowings, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability is offset and net amounts are reported in the consolidated financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Risk management is carried out by senior management. The most important types of risks are currency risk, fair value and cash flow interest rate risks and credit risk.

3.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, United States dollars and Euros.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group also has investments in foreign subsidiaries and associates whose net assets are exposed to currency translation risk. Currently, such exposures are mainly related to exchange rate movements between Saudi Riyals against other currencies and are recorded as a separate component of shareholders' equity in the accompanying consolidated financial statements. The Group's management monitors such exposures and considers the use of forward exchange contracts and to hedge the foreign currency exposures. However, there were no forward exchange contracts or other currency hedging instruments outstanding at December 31, 2016 and 2015.

3.2 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flows. The Group's interest rate risks arise mainly from the bank borrowings, which are at floating rate of interest and are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that fair value and cash flow interest rate risks to the Group are not significant.

(All amounts in Saudi Riyals unless otherwise stated)

3.3 Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group financial instruments are not exposed to price risk.

3.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has no significant concentration of credit risk. Cash is placed with banks with sound credit ratings. Accounts receivable are carried net of provision for doubtful accounts.

3.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

3.6 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

4 Segment information

The Group operates principally in the following business segments:

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

Selected financial information as of December 31, 2016 and 2015 and for the years then ended, summarized by the above business segments, was as follows:

	Manufacturing	**Trading, transporting and others**	**Total**
2016			
Sales	**452,440,562**	**24,830,335**	**477,270,897**
Net loss	**(63,367,033)**	**(4,115,649)**	**(67,482,682)**
Financial charges	**29,231,464**	**2,397,163**	**31,628,627**
Depreciation and amortization	**41,257,343**	**8,670,746**	**49,928,089**
Property, plant and equipment	**820,589,228**	**88,145,448**	**908,734,676**
Total assets	**1,258,919,645**	**187,319,801**	**1,446,239,446**
2015			
Sales	498,017,322	102,552,871	600,570,193
Net income (loss)	(85,896,021)	(41,217,095)	(127,113,116)
Financial charges	34,578,387	1,454,575	36,032,962
Depreciation and amortization	42,981,649	16,456,916	59,438,565
Property, plant and equipment	897,474,527	86,738,938	984,213,465
Total assets	1,466,809,549	246,461,116	1,713,270,665

(All amounts in Saudi Riyals unless otherwise stated)

The Group's operations are conducted in Kingdom of Saudi Arabia, other Gulf Cooperation Council (GCC) countries and certain other countries. Selected financial information as of December 31, 2016 and 2015 and for the year then ended, summarized by geographic area was as follows:

	Saudi Arabia	GCC countries	Other countries	Total
2016				
Sales	**443,323,914**	**12,499,726**	**21,447,257**	**477,270,897**
Non-current assets:				
Property, plant and equipment	**818,713,532**	**18,599,846**	**71,421,298**	**908,734,676**
Other non-current assets	**35,946,703**	**13,517,174**	**66,792**	**49,530,669**
2015				
Sales	537,134,072	42,921,402	20,514,719	600,570,193
Non-current assets:				
Property, plant and equipment	889,407,790	26,640,266	68,165,409	984,213,465
Other non-current assets	37,345,112	13,614,400	-	50,959,512

5 Cash and cash equivalents

	2016	2015
Cash in hand	**186,262**	592,506
Cash at banks	**23,897,919**	38,430,716
	24,084,181	39,023,222

6 Accounts receivable

	2016	2015
Trade	**279,956,051**	307,207,685
Less: provision for doubtful debts	**(39,874,581)**	(34,772,759)
	240,081,470	272,434,926

Movement in provision for doubtful debts is as follows:

	2016	2015
January 1	**34,772,759**	18,073,667
Additions	**5,628,650**	16,699,092
Written off	**(526,828)**	-
December 31	**39,874,581**	34,772,759

(All amounts in Saudi Riyals unless otherwise stated)

7 Inventories

	2016	2015
Raw materials	**34,087,575**	108,769,069
Work in process	**1,023,898**	2,027,801
Spare parts and supplies, held not for sale	**64,841,790**	83,957,557
Finished products	**29,881,047**	78,650,455
	129,834,310	273,404,882
Less: provision for inventory obsolescence	**(3,616,133)**	(40,070,795)
	126,218,177	233,334,087

Movement in provision for inventory obsolescence is as follows:

	Note	2016	2015
January 1		**40,070,795**	5,924,194
Additions		**244,202**	34,146,601
Reversals	7.1	**(36,698,864)**	-
December 31		**3,616,133**	40,070,795

7.1 Inventory Provision

7.1. This represents reversal of provision for slow moving / obsolete inventories which have been sold during the year.

8 Prepayments and other receivables

	Note	2016	2015
Receivable from sale of land parcels	8.1	**17,300,000**	56,299,999
Prepaid expenses		**8,654,875**	11,700,275
Advances to suppliers		**18,463,644**	34,876,262
Insurance claim receivable	1	**20,593,371**	-
Refundable deposits		**7,214,878**	4,793,934
Employee housing and other advances		**1,197,382**	6,280,634
Others	8.2	**20,906,258**	16,094,484
		94,330,408	130,045,588

8.1 Receivable from sale of land parcels

It represents receivable from a third party against sale of land in 2012 and 2016. The management believes that the outstanding balance of SR 17.3 million will be collected in 2017.

8. 2 Other receivables

It includes Saudi Riyals 8.9 million receivable from a third party and is secured against promissory notes. The Group management, based on advice from its legal counsel, believes that the balance is recoverable. Accordingly, no provision against of such amount has been made in the accompanying consolidated financial statements.

(All amounts in Saudi Riyals unless otherwise stated)

9 Investment in an associate

Investment in an associate at December 31, 2016 and 2015 represents the Group's 26% equity interest in East Gas Company, a limited liability company registered in the Kingdom of Saudi Arabia. East Gas Company is principally involved in maintenance and operating of industrial facilities and wholesale trade in machines and equipment of gas.

Movement in investment in an associate is as follows:

	2016	2015
January 1	**24,344,595**	24,344,595
Share in net income	**1,250,000**	-
December 31	**25,594,595**	24,344,595

10 Property, plant and equipment

Cost	Buildings and land improvements	Plant, machinery and equipment	Furniture, fixtures and office equipment	Vehicles	Capital work-in-progress	Total SR
At January 1, 2016	427,171,406	1,026,825,665	16,498,505	42,638,882	29,111,712	1,542,246,170
Additions	42,934,096	12,744,939	632,435	112,184	15,324,657	71,748,311
Disposals	(101,439,275)	(437,418)	(8,679)	(1,484,341)	-	(103,369,713)
Transfers	-	23,956,490	-	-	(23,956,490)	-
Write off	(5,414,170)	(7,306,238)	(639,483)	(28,596)	-	(13,388,487)
At December 31, 2016	363,252,057	1,055,783,438	16,482,778	41,238,129	20,479,879	1,497,236,281
Accumulated depreciation						
At January 1, 2016	88,322,795	426,063,100	12,634,888	31,011,922	-	558,032,705
Charge for the year	9,339,660	33,801,445	819,844	2,293,139	-	46,254,088
Disposals	(9,931,372)	(437,418)	(6,111)	(1,436,936)	-	(11,811,837)
Write off	(1,157,345)	(2,379,055)	(408,356)	(28,595)	-	(3,973,351)
At December 31, 2016	86,573,738	457,048,072	13,040,265	31,839,530	-	588,501,605
Net book value at December 31, 2016	276,678,319	598,735,366	3,442,513	9,398,599	20,479,879	908,734,676

(All amounts in Saudi Riyals unless otherwise stated)

Cost	Buildings and land improvements	Plant, machinery and equipment	Furniture, fixtures and office equipment	Vehicles	Capital work-in-progress	Total SR
At January 1, 2015	424,587,252	956,737,748	15,945,614	50,929,990	87,085,745	1,535,286,349
Additions	2,773,037	10,117,956	980,041	1,437,862	9,403,749	24,712,645
Disposals	(188,883)	(3,329,986)	(427,150)	(9,728,970)	-	(13,674,989)
Transfers	-	63,299,947	-	-	(67,377,782)	(4,077,835)
At December 31, 2015	427,171,406	1,026,825,665	16,498,505	42,638,882	29,111,712	1,542,246,170
Accumulated depreciation						
At January 1, 2015	77,344,121	393,199,328	11,943,467	36,337,162	-	518,824,078
Charge for the year	11,167,556	35,042,477	1,091,236	3,602,636	-	50,903,905
Disposals	(188,882)	(2,178,705)	(399,815)	(8,927,876)	-	(11,695,278)
					-	
At December 31, 2015	88,322,795	426,063,100	12,634,888	31,011,922	-	558,032,705
Net book value at December 31, 2015	338,848,611	600,762,565	3,863,617	11,626,960	29,111,712	984,213,465

Buildings and plant, machinery and equipment of the Company and some of its subsidiaries are constructed on land parcels leased under various operating lease agreements at nominal annual rents from Saudi Arabian government under renewable operating leases.

Capital work-in-progress at December 31, 2016 represents costs incurred on projects for the construction of certain manufacturing facilities.

Additions during 2016 include capital spares amounting to Saudi Riyal 1.2 million which have been transferred from inventories.

11 Intangible assets

	Note	2016	2015
Definite useful life	11.1		
Computer software's		**8,639,825**	10,277,504
Pre-operating costs		**1,779,116**	2,723,013
		10,418,941	13,000,517
Indefinite useful life			
Goodwill	11.2	**13,517,133**	13,614,400
		23,936,074	26,614,917

11.1 Movement in intangible assets with definite useful life is as follows:

	2016	2015
January 1	**13,000,517**	4,542,673
Additions	**1,092,425**	10,277,504
Amortization and adjustment	**(3,674,001)**	(1,819,660)
December 31	**10,418,941**	13,000,517

11.2 Goodwill

This represents goodwill of Saudi Riyals 13.6 million recorded on acquisition of the equity interests in Al Juthoor.

The recoverable amount of goodwill is determined based on fair value calculations. These calculations use cash flow projections based on financial budgets approved by management. Management determined budgeted gross margin and weighted average growth rates based on past performance and its expectations of market development. The discount rate of 10% is applied to the cash flow projections.

12 Short-term borrowings

Bank borrowings include short term loans and liabilities against letter of credit refinancing obtained from various commercial banks and bear financial charges at prevailing market rates which are based on inter-bank offer rate.

The covenants of certain of the short-term bank borrowings require the Group to maintain certain level of financial conditions.

As at December 31, 2016, the Group has unused bank financing facilities amounting to Saudi Riyals 13.3 million (2015: Saudi Riyals 32.6 million).

13 Long-term borrowings

	Note	2016	2015
Saudi Industrial Development Fund ("SIDF") loans	13.1	**49,272,000**	45,170,000
Commercial bank loans	13.2	**536,375,800**	544,170,790
		585,647,800	589,340,790
Current maturity shown under current liabilities		**(98,664,151)**	(116,474,813)
		486,983,649	472,865,977

13.1 SIDF loans

These represent loans obtained from SIDF by the Company as one of its Saudi Arabian subsidiary. The covenants of the loan agreements require the Company and such subsidiary to maintain certain levels of financial condition, place limitations on dividends distributions and on annual capital and rental expenditures. The loans do not bear financial charges and are secured by mortgage on property, plant and equipment of the Company and the subsidiary.

13.2 Commercial bank loans

The Group has obtained loan facilities from various commercial banks. These loans are mainly denominated in Saudi Riyals which generally bear financial charges based on prevailing market rates. The aggregate maturities of the loans outstanding at December 31, 2016, based on their respective repayment schedules, are spread in 2018 through 2021.

Subsequent to December 31, 2016, the Group has refinanced short-term loans amounting to Saudi Riyals 39 million at December 31, 2016 which have been classified by the Group as long-term considering their maturities falling due after twelve month period from the reporting date. In addition, the Group has refinanced short-term loans falling due in 2016 amounting to Saudi Riyals 250 million at December 31, 2016 based on the options available to the Group to roll over such loans for further twelve month period and, accordingly, has classified them as long-term in the accompanying 2016 consolidated balance sheet.

(All amounts in Saudi Riyals unless otherwise stated)

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

14 Accrued and other liabilities

	2016	2015
Employees benefits	**21,725,869**	19,654,050
Accrued sales commission and rebates	**20,556,387**	25,573,672
Financial charges	**10,138,915**	6,833,230
Accrued expenses	**32,665,383**	38,271,255
Other	**2,915,755**	6,896,225
	88,002,309	97,228,432

15 Zakat

15.1 Components of zakat base

The significant components of the Group's zakat base are comprised of shareholders' equity at the beginning of the year, provisions at the beginning of the year, borrowings and adjusted net income, less deduction for the net book value of property and plant and equipment adjusted as per the GAZT regulations, and certain other items.

15.2 Provision for zakat at December 31

	Note	2016	2015
January 1,		**4,906,737**	5,929,637
Provision for the year		**1,100,004**	1,150,000
Adjustment	15.2.1	**(4,500,000)**	(1,910,000)
Payments		**-**	(262,900)
December 31		**1,506,741**	4,906,737

15.2.1. During the year, the Group, after carrying out a detailed analysis of the status of zakat liability, has reversed an amount of SR 4.5million (2015: SR 1.9 million) considering the said amount as over provision.

15.3 Status of zakat certificates

Pursuant to the requirements of Circular No. 36025/9/1437 issued by the GAZT in 2016, the Group will file combined zakat declaration based on the combined audited financial statements combining the results of parent company and its resident and non-resident wholly owned subsidiaries for the financial year ended December 31, 2016. Further, the Group will also file information returns for its wholly owned subsidiaries for the same year.

The General Authority of Zakat and Income Tax ("GAZT") has issued final assessments up to 2000. From 2001 to 2015, GAZT has accepted certified zakat returns filed by the Group and issued zakat certificates based upon those returns. However, the final zakat assessments are yet to be issued for these years by the GAZT.

16 Employees end of service benefits

	2016	2015
January 1	**25,040,221**	23,855,272
Charge for the year	**6,093,417**	6,625,992
Payments during the year	**(7,677,433)**	(5,441,043)
December 31	**23,456,205**	25,040,221

(All amounts in Saudi Riyals unless otherwise stated)

17 Share capital

The share capital of the Company as of December 31, 2016 and 2015 was comprised of 45.0 million ordinary shares, stated at Saudi Riyals 10.0 per share.

18 Statutory reserve

In accordance with the Articles of Association of the Group, the Group transfers 10% of the net income for the year to a statutory reserve until such reserve equal 50% of its share capital. This reserve is not available for distribution to the shareholders of the Group. The statutory reserve in these consolidated financial statements is the statutory reserve of the Company. As the Group have losses in the current and prior years, no allocation has been made to the statutory reserve.

19 Selling and marketing expenses

	2016	**2015**
Salaries and benefits	**14,661,053**	15,539,655
Transportation	**17,512,969**	21,477,636
Provision for doubtful debts	**5,628,650**	16,699,092
Sales promotion, advertising and marketing expenses	**12,810,171**	15,569,975
Consultancy services	**9,325,000**	9,425,000
Rent	**6,553,299**	5,282,644
Others	**5,719,208**	9,401,834
	72,210,350	93,395,836

20 General and administrative expenses

	2016	**2015**
Salaries, wages and benefits	**38,031,225**	43,978,517
Professional services	**2,891,295**	3,793,011
Depreciation	**2,495,011**	4,022,720
Travelling	**602,655**	857,803
Repair and maintenance	**126,538**	763,521
Government charges and fees	**570,905**	717,727
Rent	**127,163**	535,319
Information technology and communication	**1,177,109**	200,680
Others	**7,353,441**	6,058,885
	53,375,342	60,928,183

21 Other charges, net

	2016	**2015**
Provision for inventory obsolescence	-	24,060,195
Impairment of goodwill	-	4,500,000
Write-off insurance receivable	-	7,500,000
Provision against custom duty receivable	-	4,035,768
Provision against other receivable	-	5,569,917
Miscellaneous	**9,773,003**	281,305
	9,773,003	45,947,185

22 (Loss)/ earnings per share

(Loss)/earnings per share for the years ended December 31, 2016 and 2015 have been computed by dividing the operating (loss)/ income and net (loss)/ income for each year by weighted average number of 45,000,000 shares outstanding during such years.

23 Contingencies and commitments

(i) The Group was contingently liable for bank guarantees issued in the normal course of the business amounting to Saudi Riyals 4.1 million at December 31, 2016(2015:Saudi Riyals 58.3 million).

(ii) The capital expenditure contracted by the Group but not yet incurred till December 31, 2016 was approximately Saudi Riyals 10 million(2015:Saudi Riyals 19 million)..

24 Transition to International Financial Reporting Standards (IFRS)

SOCPA has approved a plan for transition to International Financial Reporting Standards. The plan requires that effective from January 1, 2017 all the companies listed on Saudi Stock Exchange ("Tadawul") shall prepare their financial statements in accordance with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the SOCPA. Accordingly, effective from January 1, 2017, the Company shall prepare its financial statements in accordance with IFRS.

25 Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

26 Approval of consolidated financial statements

These consolidated financial statements were authorized for issuance by the Group's Board of Directors on March 01, 2017.