

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

**CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS AND REVIEW REPORT
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020**



Crowe

Al Azem, Al Sudairy, Al Shaikh & Partners
CPA's & Consultants - Member Crowe Global

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

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND REVIEW
REPORT
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020**

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**REPORT ON REVIEW OF CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS**

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of **Middle East Specialized Cables Company (the "Company")** and its subsidiary (the "Group") as at 30 June 2020, and the related condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month and six-month periods ended 30 June 2020, and the related condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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.



**Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountants**



**Abdullah M. AlAzem
License No. 335**

5 Muharram 1442H (August 24, 2020)
Riyadh, Kingdom of Saudi Arabia

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2020
(Saudi Riyals)

	Notes	30 June 2020 (Unaudited)	31 December 2019 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	6	166,738,891	175,858,624
Intangible assets		3,236,897	3,499,313
Right of use assets		9,795,797	10,203,340
Non-current accounts receivable		32,987,302	33,001,262
Total non-current assets		212,758,887	222,562,539
Current assets			
Inventory		106,918,620	132,986,461
Accounts receivable		336,701,456	304,406,022
Cash and cash equivalent		18,795,316	14,318,473
Total current assets		462,415,392	451,710,956
TOTAL ASSETS		675,174,279	674,273,495
EQUITY AND LIABILITIES			
Share capital	8	400,000,000	400,000,000
Statutory reserve		28,985,180	28,985,180
Accumulated losses		(70,620,015)	(69,443,933)
Total equity		358,365,165	359,541,247
Non-current liabilities			
Long-term loans		94,088,798	94,088,798
Lease liability – non-current portion		8,380,200	8,814,875
Employees' end of service benefits		19,964,987	19,108,400
Total non-current liabilities		122,433,985	122,012,073
Current liabilities			
Current portion of long-term loans		5,999,999	6,537,999
Short-term loans		-	6,660,318
Accounts payable		167,616,783	163,375,820
Lease liability – current portion		1,098,514	1,111,205
Zakat provision		19,618,646	14,993,646
Dividends payable		41,187	41,187
Total current liabilities		194,375,129	192,720,175
Total liabilities		316,809,114	314,732,248
TOTAL EQUITY AND LIABILITIES		675,174,279	674,273,495

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

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

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2020
Saudi Riyals

	Note	For the three months period ended		For the six months period ended	
		30 June 2020 (Unaudited)	30 June 2019 (Unaudited)	30 June 2020 (Unaudited)	30 June 2019 (Unaudited)
Sales		115,091,007	119,165,263	255,332,747	233,874,530
Cost of sales		(100,058,862)	(106,354,491)	(219,902,934)	(210,587,465)
Gross profit		15,032,145	12,810,772	35,429,813	23,287,065
Selling and marketing expenses		(5,981,755)	(4,712,390)	(13,699,304)	(11,371,899)
General and administrative expenses		(7,224,136)	(10,355,912)	(15,766,932)	(20,655,131)
Other income (expenses)		89,823	13,945	(93,891)	(63,581)
Operating income (loss)		1,916,077	(2,243,585)	5,869,686	(8,803,546)
Finance cost		(1,061,377)	(1,395,035)	(2,420,768)	(3,054,747)
Net income (loss) before zakat		854,700	(3,638,620)	3,448,918	(11,858,293)
Zakat		(2,312,500)	(2,362,500)	(4,625,000)	(4,725,000)
Net loss for the period		(1,457,800)	(6,001,120)	(1,176,082)	(16,583,293)
Other comprehensive income:					
Item that will not be reclassified subsequently to profit or loss:					
Remeasurement gain on employees' end of service benefits		-	-	-	-
Other comprehensive income for the period		-	-	-	-
Total comprehensive loss for the period		(1,457,800)	(6,001,120)	(1,176,082)	(16,583,293)
Loss per share (SR)					
Basic and diluted loss for the period attributable to ordinary equity holders	5	(0.04)	(0.15)	(0.03)	(0.41)

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

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020
Saudi Riyals

	Share capital	Statutory reserve	Accumulated losses	Total equity
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
January 1, 2020 (Audited)	400,000,000	28,985,180	(69,443,933)	359,541,247
Loss for the period	-	-	(1,176,082)	(1,176,082)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period	-	-	(1,176,082)	(1,176,082)
June 30, 2020 (Unaudited)	400,000,000	28,985,180	(70,620,015)	358,365,165

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

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020
(Saudi Riyals)

	30 June 2020 (Unaudited)	30 June 2019 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(1,176,082)	(16,583,293)
Adjustments for non-cash items:		
Depreciation and amortization	9,811,958	10,423,582
Depreciation of right of use assets	407,543	407,543
Impairment of accounts receivable	6,303,707	2,869,309
Slow moving inventory	239,888	5,009,327
Amortization for arrangement fees	-	20,887
Finance cost	2,420,768	3,054,747
Loss on disposal of property, plant and equipment	-	179,695
Impairment of property, plant and equipment	280,033	308,285
Employees end of service benefits	1,388,635	1,554,421
Zakat expense	4,625,000	4,725,000
Operating cash flows before changes in working capital	24,301,450	11,969,503
<u>Movement in working capital:</u>		
Accounts receivable	(38,585,181)	30,491,300
Inventory	25,827,953	6,324,315
Accounts payable	6,067,430	(13,413,624)
Cash generated from operations	17,611,652	35,371,494
Finance cost paid	(3,958,226)	(5,841,490)
Employees end of service benefits paid	(532,048)	(2,174,797)
Zakat paid	-	(1,293,359)
Net cash generated from operating activities	13,121,378	26,061,848
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(709,842)	(1,202,538)
Purchase of intangible assets	-	(91,806)
Net cash used in investing activities	(709,842)	(1,294,344)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease on short-term loans	(6,660,318)	(15,803,260)
Repayment of long-term loans	(538,000)	-
Lease liability paid	(736,375)	(840,930)
Net cash used in financing activities	(7,934,693)	(16,644,190)
Net increase in cash and cash equivalents	4,476,843	8,123,314
Cash and cash equivalents at the beginning of the period	14,318,473	15,684,038
Cash and cash equivalents at the end of the period	18,795,316	23,807,352
<u>Non-cash transactions:</u>		
Impact of adopting of IFRS 16	-	11,817,741
Transfer from property, plant and equipment to intangible assets	-	656,851

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

MIDDLE EAST SPECIALIZED CABLES COMPANY
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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020**
(Saudi Riyals)

1. ACTIVITIES

Middle East Specialized Cables Company (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 2020. The financial statements of this subsidiary is consolidated, and the investments are recorded at fair market value in these condensed consolidated interim financial statements.

Subsidiary/ Investments	Legal status	Current legal ownership %		Country of Incorporation	Financial Year end
		June 30, 2020	June 30, 2019		
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

Fair value for the Company's investments in Jordan is zero.

- * 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.

In response to the spread of the Covid-19 and its resulting disruptions to the economic activities in markets, the management has proactively assessed its impacts on its operations to ensure the continuity of supply of its products throughout its markets and had taken a set of proactive steps to mitigate its impact on its operations and supply of products to customers. The management believes that the Covid-19 pandemic has material effects on the Group's reported financial results for the three months period ended 30 June 2020 due to the decrease in demand for the Group's products, during this period. However, the management continues to monitor the situation closely and will reflect any required changes in future financial reporting periods.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020
(Saudi Riyals)

2. BASIS OF PREPARATION

2.1 Statement of compliance

These condensed consolidated interim 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 2019 ("last annual consolidated financial statements"). They do not include all of the information required for a complete set of 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 consolidated financial position and performance since the last annual consolidated financial statements.

2.2 Preparation of the Financial Statements

The condensed consolidated interim financial statements have been prepared on the historical cost basis except the employees' end of service benefits, which is recognized at the present value of future obligations using the Projected Unit Credit Method.

2.3 Use of Judgments and Estimates

In preparing these condensed consolidated interim 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 annual consolidated financial statements.

However, as explained in Note (1) above, the Group has reviewed the key sources of estimation uncertainties disclosed in the last annual consolidated financial statements against the backdrop of Covid-19 pandemic. Management believes that other than the expected credit losses arising on the financial assets, all other sources of estimation uncertainty remain similar to those disclosed in the annual consolidated financial statements. Management will continue to monitor the situation and any changes required will be reflected in future reporting periods.

2.4 Functional and Presentation Currency

These condensed consolidated interim financial statements are presented in Saudi Riyals ("SR"), which is the Company's functional and Group's presentation currency. All amounts have been rounded to the nearest SR, unless otherwise indicated.

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 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.

MIDDLE EAST SPECIALIZED CABLES COMPANY
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020
(Saudi Riyals)

3. BASIS OF CONSOLIDATION – Continued

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. 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 consolidated financial statements for the year ended 31 December 2019, except new standards, amendment to standards and interpretations as described below:

New standards, amendments to standards and interpretations

There are no new standards issued, however, there are number of amendments to standards as follows:

- Amendments to standards which are effective from 1 January 2020 and has been explained in the Group's annual consolidated financial statements, but they do not have a material effect on the Group's condensed consolidated interim financial statements.
- Amendments to IFRS 16 – COVID-19 "Related Rent Concessions" which are effective for the periods beginning on or after 1 June 2020. The amendment permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The amendment does not affect lessors. There is no material impact on the Group's condensed consolidated interim financial statements.

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 1,176,082 (June 30, 2019: net loss of SR 16,583,293) divided by a weighted average number of shares in issue of 40 million.

6. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately SR 0.7 million (June 30, 2019: SR 1.2 million) on property, plant and equipment in order to upgrade its manufacturing facilities.

7. DIVIDENDS

No dividends were declared during the period (June 30, 2019: nil).

8. SHARE CAPITAL

The Company has 40 million shares of SR 10 each in issue as at the reporting date. There were no movements in share capital during the reporting period.

9. CAPITAL COMMITMENTS AND CONTINGENCIES

The Group had capital commitments of SR 3.8 million (December 31, 2019: SR 10.9 million) and contingencies in the form of letters of credit and guarantees of SR 109 million at the reporting date (December 31, 2019: SR 119 million).

10. RELATED PARTY TRANSACTIONS

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

MIDDLE EAST SPECIALIZED CABLES COMPANY
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020
(Saudi Riyals)

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 Group 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

Segment revenues and results

	Three months period ended 30 June 2020	30 June 2020	Six months period ended 30 June 2020	30 June 2020
<u>Revenues and profit or (Loss)</u> <u>before zakat by segment</u>	<u>Revenues</u>	<u>Net profit (loss)</u> <u>before zakat</u>	<u>Revenues</u>	<u>Net profit (loss)</u> <u>before zakat</u>
Saudi Arabia	81,883,713	1,040,629	195,936,037	4,692,373
United Arab Emirates	43,856,460	(2,036,875)	103,894,326	(3,653,669)
Intersegment eliminations	(10,649,166)	1,850,946	(44,497,616)	2,410,214
	<u>115,091,007</u>	<u>854,700</u>	<u>255,332,747</u>	<u>3,448,918</u>
		30 June 2020		30 June 2020
<u>Segment total assets and</u> <u>liabilities</u>		<u>Assets</u>		<u>Liabilities</u>
Saudi Arabia		618,466,206		260,099,405
United Arab Emirates		189,034,072		134,521,426
Intersegment eliminations		(132,325,999)		(77,811,717)
		<u>675,174,279</u>		<u>316,809,114</u>
	Three months ended 30 June 2019	30 June 2019	Six months ended 30 June 2019	30 June 2019
<u>Revenues and losses before zakat</u> <u>by segment</u>	<u>Revenues</u>	<u>Net loss</u> <u>before zakat</u>	<u>Revenues</u>	<u>Net loss</u> <u>before zakat</u>
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)
	<u>119,165,263</u>	<u>(3,638,620)</u>	<u>233,874,530</u>	<u>(11,858,293)</u>
		31 December 2019		31 December 2019
<u>Segment total assets and</u> <u>liabilities</u>		<u>Assets</u>		<u>Liabilities</u>
Saudi Arabia		644,362,114		284,168,869
United Arab Emirates		186,727,944		128,561,629
Intersegment eliminations		(156,816,563)		(97,998,250)
		<u>674,273,495</u>		<u>314,732,248</u>

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020
(Saudi Riyals)

12. SUBSEQUENT EVENTS

In the opinion of the management, there have been no significant subsequent events since the period-end that require disclosure or adjustment in these condensed consolidated interim financial statements.

13. APPROVAL OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved on 5 Muharram 1442H (Corresponding to August 24, 2020).