

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

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

**BAWAN COMPANY AND SUBSIDIARIES**  
**(SAUDI JOINT STOCK COMPANY)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

<b>INDEX</b>	<b>PAGE</b>
Independent auditor's report	3 - 9
Consolidated statement of financial position	10
Consolidated statement of profit or loss and other comprehensive income	11
Consolidated statement of changes in equity	12
Consolidated statement of cash flows	13
Notes to the consolidated financial statements	14 - 67

## Independent Auditor's Report

To the shareholders of  
**Bawan Company (Saudi Joint Stock Company)**

Riyadh, Kingdom of Saudi Arabia

### Opinion

We have audited the consolidated financial statements of Bawan Company (the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes from (1) to (38) to the consolidated financial statements, including a summary of significant accounting policies.

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

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the professional code of conduct and that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with its requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters include:

<b>Adoption of IFRS 15 “Revenue From Contracts With Customers”</b>	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group adopted IFRS 15 “Revenue from contracts with customers” with effect from 1 January 2018 and this new standard replaced the requirements of IAS 18 “Revenue”.</p> <p>Management performed a detailed analysis of each type of revenue contracts to identify differences between the requirements of IFRS 15 and IAS 18, identify the changes required to be made to existing accounting policies and determine the transition adjustments and consequential changes, if any, to processes and controls required particularly in connection with the separation of different performance obligations that there may be within a given contract.</p> <p>Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control of a product or service to a customer. For sales of goods, revenue is recognized when control of the goods has transferred, being when the goods have been delivered to the customers. A receivable is recognized by the Group when the goods are delivered to the wholesaler as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due, also, the Group has not raised a refund liability given the historically low level of returns in the past. Revenue from construction is recognized over time on a cost to cost method.</p> <p>We considered the adoption of IFRS 15 as a key audit matter as revenue recognition is fundamental to the consolidated financial statements and requires the use of judgement by management.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>- Reviewed management’s detailed analysis of its various revenue streams and how the new accounting standard impacts the Group, if any;</li> <li>- Gained an understanding of management’s approach to the implementation of any changes to the accounting policy;</li> <li>- Obtained an understanding of the nature of revenue contracts used by the Group for each significant revenue stream, tested a sample of representative sales contracts to confirm our understanding and assess whether or not management’s application of IFRS 15 requirements was in accordance with the accounting standards;</li> <li>- Tested relevant processes and controls established by management to ensure appropriate recognition of revenue;</li> <li>- Considering the appropriateness of revenue recognition as per the Group policies, including those relating to discounts, and assessing compliance with IFRS 15;</li> <li>- We tested the design and effectiveness of internal controls implemented by the Group through the revenue cycle;</li> <li>- We tested sales transactions taking place at either side of the consolidated statement of financial position date to assess whether the revenue was recognised in the correct period; and</li> <li>- We also performed analytical review on revenue based on trends of monthly sales and profit margins.</li> </ul>
<p>Refer to note (2) for accounting policy and notes (3, 5) for related disclosures.</p>	

<b>Adoption of IFRS 9 “Financial Instruments”</b>	
<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>The Group adopted IFRS 9 “Financial instruments” with effect from 1 January 2018 and this new standard replaced the requirements of IAS 39 “Financial instruments – recognition and measurement”.</p> <p>IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. Management has determined that the most significant impact of the new standard on the Group’s consolidated financial statements relates to the calculation of the allowance for the impairment of trade receivables.</p> <p>The Group assesses at each reporting date whether the financial assets carried at amortised cost are credit-impaired. The Group’s management has applied a simplified expected credit loss (“ECL”) model to determine the allowance for impairment of trade receivables. The ECL model involves the use of various assumptions, economic factors and study of historical trade receivables collections experience.</p> <p>We considered adoption of IFRS 9 “Financial instruments” as a key audit matter due to the judgements and estimates involved in the application of the expected credit loss model.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>- Reviewed management’s assessment of the impact of IFRS 9 in terms of the classification and measurement of its financial assets and liabilities, and understood the approach taken towards implementation. We specifically considered the validity of management’s conclusion that the main area of impact was in respect of trade receivables impairment, using our experience and knowledge of similar entities;</li> <li>- Compared the ECL model developed by management to that required by IFRS 9 and reviewed the reasonableness of the methodology in comparison to accepted best practice;</li> <li>- Checked the model’s mathematical accuracy; and</li> <li>- Tested key assumptions, such as those used to calculate the default rates by comparing to historical data and forward looking factors to reflect the impact of future events on expected credit losses;</li> </ul>
<p>Refer to note (2) for accounting policy and notes (3, 18) for related disclosures.</p>	

<b>Carrying value of non-current assets of Electrical sector</b>	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group has significant investments in tangible and intangible assets that are associated with its operations and business units in the Electrical sector.</p> <p>For goodwill and intangible assets of Utec-Saudi, management has tested with help of an external consultant, this for impairment using a model that employs discounted cash flows valuation approach. The outcome of this exercise resulted in full impairment of the goodwill and an impairment of SR 14.26 million with respect to tangible assets. Management has also conducted an impairment review of the assets of Bawan Electric Company which has resulted in an impairment of SR 5.14 million.</p> <p>We considered the carrying value of non-current assets of Electrical sector as a key audit matter since use of management assumptions and judgments could result in material over / understatement of the Group's profitability.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>- Critically reviewing the inputs and assumptions in the impairment tests performed, and performed sensitivity analysis as part of testing to determine headroom within tests and the residual risk of material misstatement headroom in order to assess the potential impact of impairment outcome;</li> <li>- Reviewing and assessing the methodology used in the valuation model as well as the assumptions and other data inputs used in the model;</li> <li>- We checked the model's mathematical accuracy.</li> </ul>
Refer to note (2) for accounting policy and notes (13, 15) for related disclosures.	

<b>Valuation of inventories</b>	
<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>Inventories are stated at the lower of cost and net realizable value and an allowance for slow moving inventories is made by the Group's management, where necessary. Management estimates the level of obsolescence of inventories considering the nature, ageing and other sales expectation factors. Management reviews the valuation of inventories for the purpose of writing-off the cost of inventories in excess of expected net realizable value.</p> <p>We considered valuation of inventories as a key audit matter due to the significant judgment and main assumptions applied by the management in determining the allowance of slow moving inventories and inventories written off based on net realizable value assessment.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>- Assessed the design and implementation, and tested the effectiveness of the Group's controls around the estimation and monitoring of the allowance of slow moving inventories;</li> <li>- Evaluated the Group's policies for slow moving inventories by comparing historical estimations to actual results;</li> <li>- Tested the validity of the inventory ageing reports used by management in the assessment of the allowance for slow moving inventories;</li> <li>- Checked that the allowance for inventories matches with the Group's policies;</li> <li>- Inquired about any identified obsolete or slow moving inventories during our attendance at physical stock counts; and</li> <li>- Tested the net realizable value of finished goods inventories to check whether inventories are stated at the lower of cost and net realizable value.</li> </ul>
<p>Refer to note (2) for accounting policy and note (17) for related disclosures.</p>	

<b>Related party transactions</b>	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>In the normal course of its business the Group transacts with related parties.</p> <p>We considered related parties' transactions as a key audit matter due to materiality of such transactions.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>- We obtained an understanding of the controls that management has put in place to identify, approve, account for and disclose related party transactions;</li> <li>- We tested these controls on a sample basis to ascertain if they are working effectively;</li> <li>- Obtained the closing related party balance confirmations;</li> <li>- We traced a sample of related party transactions to supporting documentation; and</li> <li>- We looked for indications of any potential related parties throughout the course of the audit.</li> </ul>
Refer to note (27) for related disclosures.	

#### **Other information**

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of management and Those Charged With Governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS endorsed in the Kingdom of Saudi Arabia, other standards and versions endorsed by SOCPA and Regulations of Companies requirements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged With Governance, in particular the Audit Committee, are responsible for overseeing the Group's financial reporting process.



#### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:


- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the management and Those Charged With Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Those Charged With Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Those Charged With Governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For Dr. Mohamed Al-Amri & Co.,

  
Jamal M. Al-Amri  
Certified Public Accountant  
Registration No. 331



Riyadh on, March 18, 2019 (G)  
Rajab 11, 1440 (H)

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2018**

	Note	December 31, 2018 SR'000	December 31, 2017 SR'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	431,646	454,862
Right-of-use assets	14	23,622	-
Goodwill	15	331	170,101
Other intangible assets	16	1,326	2,853
Non-current trade and other receivables	18	5,760	7,463
<b>Total non-current assets</b>		<b>462,685</b>	<b>635,279</b>
<b>Current assets</b>			
Inventories	17	555,762	499,987
Spare parts		17,643	16,840
Trade and other receivables	18	605,012	636,894
Contract assets	19	26,896	13,736
Cash and cash equivalents		42,637	52,544
<b>Total current assets</b>		<b>1,247,950</b>	<b>1,220,001</b>
<b>TOTAL ASSETS</b>		<b>1,710,635</b>	<b>1,855,280</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	20	600,000	600,000
Statutory reserve	21	88,927	88,927
(Accumulated losses) retained earnings		(81,005)	154,046
Foreign currency translation reserve		(1,307)	(936)
Equity attributable to owners of the Company		606,615	842,037
Non-controlling interests		89,483	102,296
<b>Total equity</b>		<b>696,098</b>	<b>944,333</b>
<b>Non-current liabilities</b>			
Loans	22.2	20,501	32,358
Lease liabilities	23	23,388	-
Employee defined benefit liabilities	24	61,001	69,444
<b>Total non-current liabilities</b>		<b>104,890</b>	<b>101,802</b>
<b>Current liabilities</b>			
Trade and other payables	25	293,634	306,767
Amounts due to banks	22.1	528,288	423,536
Contract liabilities	26	39,872	38,286
Current portion of loans	22.2	17,667	17,328
Current portion of lease liabilities	23	3,180	-
Zakat payable	10.1	19,187	22,501
Income tax payable	10.2	56	395
Dividends payable		7,763	332
<b>Total current liabilities</b>		<b>909,647</b>	<b>809,145</b>
<b>Total liabilities</b>		<b>1,014,537</b>	<b>910,947</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,710,635</b>	<b>1,855,280</b>

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

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

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

	Note	2018 SR'000	2017 SR'000
Revenue	5, 27	1,953,455	2,128,752
Cost of sales	27	<u>(1,797,879)</u>	<u>(1,865,557)</u>
<b>Gross profit</b>		<b>155,576</b>	<b>263,195</b>
Selling and distribution expenses	6	(46,391)	(49,103)
Administrative expenses	7	(109,649)	(106,752)
Impairment of goodwill and property, plant and equipment	13, 15	(189,167)	-
Other income	8	8,037	11,287
<b>(Loss) profit before finance charges, zakat and income tax</b>		<b>(181,594)</b>	<b>118,627</b>
Finance charges	9	(26,510)	(22,261)
<b>(Loss) profit before zakat and income tax</b>		<b>(208,104)</b>	<b>96,366</b>
Zakat	10	(16,195)	(12,656)
Income tax	10	(24)	(348)
<b>(Loss) profit for the year</b>		<b>(224,323)</b>	<b>83,362</b>
<b>Other comprehensive (loss) income</b>			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement gains (losses) of employee defined benefit liabilities	24	11,457	(1,806)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		(886)	(1,077)
<b>Total comprehensive (loss) income for the year</b>		<b>(213,752)</b>	<b>80,479</b>
<b>(Loss) profit for the year attributable to:</b>			
Owners of the Company		(218,353)	71,013
Non-controlling interests		(5,970)	12,349
		<b>(224,323)</b>	<b>83,362</b>
<b>Total comprehensive (loss) income for the year attributable to:</b>			
Owners of the Company		(208,909)	69,004
Non-controlling interests		(4,843)	11,475
		<b>(213,752)</b>	<b>80,479</b>
<b>(Loss) earnings per share (SR)</b>			
Basic and diluted	12	<b>(3.64)</b>	<b>1.18</b>

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

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

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

	Share capital SR'000	Statutory reserve SR'000	Retained earnings (accumulated losses) SR'000	Foreign currency translation reserve SR'000	Attributable to owners of the Company SR'000	Non- controlling interests SR'000	Total equity SR'000
<b>Balance at January 1, 2017</b>	<b>600,000</b>	<b>81,826</b>	<b>130,722</b>	<b>(1,255)</b>	<b>811,293</b>	<b>85,095</b>	<b>896,388</b>
Total comprehensive income for the year	-	-	69,425	(421)	69,004	11,475	80,479
Transfer to statutory reserve (refer note 21)	-	7,101	(7,101)	-	-	-	-
Reclassification adjustment for exchange differences included in profit or loss on disposal of a subsidiary	-	-	-	740	740	126	866
Contribution to absorb losses	-	-	-	-	-	2,478	2,478
Derecognized on disposal of a subsidiary (refer note 34.3)	-	-	-	-	-	3,122	3,122
Dividends (refer note 37)	-	-	(39,000)	-	(39,000)	-	(39,000)
<b>Balance at December 31, 2017</b>	<b>600,000</b>	<b>88,927</b>	<b>154,046</b>	<b>(936)</b>	<b>842,037</b>	<b>102,296</b>	<b>944,333</b>
Impact of adoption of IFRS 16 (refer note 3)	-	-	(2,513)	-	(2,513)	(565)	(3,078)
Total comprehensive loss for the year	-	-	(208,538)	(371)	(208,909)	(4,843)	(213,752)
Dividends (refer note 37)	-	-	(24,000)	-	(24,000)	(7,405)	(31,405)
<b>Balance at December 31, 2018</b>	<b>600,000</b>	<b>88,927</b>	<b>(81,005)</b>	<b>(1,307)</b>	<b>606,615</b>	<b>89,483</b>	<b>696,098</b>

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

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

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

	Note	2018 SR'000	2017 SR'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss) profit before zakat and income tax		(208,104)	96,366
Depreciation and amortization	13, 16, 28	53,195	55,352
Impairment of property, plant and equipment	13	19,397	-
Impairment of goodwill	15	169,770	-
Employee defined benefit liabilities		3,014	(186)
Finance charges		26,510	22,261
Gain on disposal of a subsidiary	34.3	-	(3,229)
Gain on disposal of property, plant and equipment		(64)	(1,105)
<b>Operating cash flows before movements in working capital</b>		<b>63,718</b>	<b>169,459</b>
<b>Movements in working capital</b>			
Decrease in trade and other receivables		33,585	7,679
(Increase) decrease in contract assets		(13,160)	3,285
(Increase) decrease in inventories		(55,775)	56,659
(Increase) decrease in spare parts		(803)	52
Decrease in trade and other payables		(16,215)	(28,237)
Increase (decrease) in contract liabilities		1,586	(17,252)
<b>Cash generated from operations</b>		<b>12,936</b>	<b>191,645</b>
Finance charges paid		(23,408)	(22,541)
Zakat paid	10.1	(19,514)	(12,108)
Income tax paid	10.2	(363)	(751)
<b>Net cash (used in) generated from operating activities</b>		<b>(30,349)</b>	<b>156,245</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of/adjustments to property, plant and equipment		(44,807)	(38,785)
Purchase of intangible assets		(35)	(8)
Proceeds from disposal of property, plant and equipment		301	1,896
Net cash inflow on disposal of a subsidiary	34.4	-	14,900
Net cash outflow on acquisition of a subsidiary	35	-	(8,000)
<b>Net cash used in investing activities</b>		<b>(44,541)</b>	<b>(29,997)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase (decrease) in amounts due to banks	22.3	104,752	(68,587)
Proceeds from loans	22.3	6,045	7,504
Repayment of loans	22.3	(17,423)	(26,671)
Repayment of lease liabilities		(4,252)	-
Contribution by non-controlling interests to absorb losses		-	2,478
Dividends paid		(23,974)	(38,952)
Dividends paid/adjustment to non-controlling interests		-	(1,908)
<b>Net cash generated from (used in) financing activities</b>		<b>65,148</b>	<b>(126,136)</b>
Net (decrease) increase in cash and cash equivalents		(9,742)	112
Effect of exchange rate changes on cash held in foreign currencies		(165)	(886)
Cash and cash equivalents at the beginning of the year		52,544	53,318
<b>Cash and cash equivalents at the end of the year</b>		<b>42,637</b>	<b>52,544</b>

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

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**1. ACTIVITIES**

Bawan Company (“Bawan” or “the Company”) is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 1010033032 dated Shawwal 9, 1400H (corresponding to August 20, 1980G). The Company’s shares are traded on the Saudi Stock Exchange (Tadawul). The Company’s financial year end is December 31.

These consolidated financial statements include the financial statements of the Company and the following subsidiaries, all of which are located in the Kingdom of Saudi Arabia (“KSA”):

	<b>Effective ownership</b>	
	<b>2018</b>	<b>2017</b>
	<u>%</u>	<u>%</u>
Bawan Metal Industries Company (“Bawan Metal”)	100.00	100.00
Bawan Engineering Industries Company (“Bawan Engineering”)	100.00	100.00
Bawan Wood Industries Company (“Bawan Wood”)	95.00	95.00
United Company for Wood and Metal Products (“United Wood and Metal”)	95.00	95.00
Bina Holding for Industrial Investments (“Bina Holding”)	56.75	56.75

Indirect subsidiaries include the following:

	<b>Location</b>	<b>Effective ownership</b>	
		<b>2018</b>	<b>2017</b>
		<u>%</u>	<u>%</u>
<b>Bawan Metal:</b>			
Bawan Contracting for Building and Construction (“BCBC”) – under liquidation	KSA	100.00	100.00
<b>Bawan Engineering:</b>			
United Transformers Electric Company–Saudi (“Utec–Saudi”)	KSA	85.50	85.50
United Transformers Electric Company–Algeria (“Utec–Algeria”)	Algeria	49.00	49.00
United Technology of Electric Substations & Switchgears Company (“USSG”)	KSA	85.50	85.50
Bawan Electric Company Limited	KSA	100.00	100.00
Bawan Mechanical Works Company Limited – under liquidation	KSA	100.00	100.00
<b>Bawan Wood:</b>			
Al-Raya Wood Works Establishment	UAE	100.00	100.00
Al-Raya Company for Wood Works	Kuwait	100.00	100.00
Inma Pallets Company Limited (“Inma Pallets”)	KSA	100.00	100.00
United Lines Logistics Services Company Limited	KSA	100.00	100.00
<b>Bina Holding:</b>			
Bina Ready-Mix Concrete Factory Company (“Bina Ready-Mix”)	KSA	100.00	100.00
Bina Advanced Concrete Products Factory Company (“Bina Precast”)	KSA	93.20	93.20
Al-Ahliyah Transport Company Limited	KSA	100.00	100.00
Total Building Company	KSA	<u>100.00</u>	<u>100.00</u>

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**1. ACTIVITIES (Continued)**

The Group (“Bawan and its Subsidiaries”) is mainly engaged in the manufacturing of metal and steel works, wooden pallets, plywood panels, boards and all types of carpentry and decorations, electrical transformers, packaged and unit substations and ready mix and concrete products.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed in Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants (“IFRS”).

***Basis of preparation***

The consolidated financial statements have been prepared on the historical cost basis except for the employee defined benefit liability, which has been actuarially valued as explained in the accounting policies below.

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

The consolidated financial statements are presented in Saudi Riyals (SR), which is the Group’s functional currency, and all values are rounded to the nearest thousand (SR 000), except where otherwise indicated.

***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries as at the reporting date. Control is achieved when the Company:

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

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

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

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

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Basis of consolidation (continued)*

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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

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

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

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

***Goodwill***

Goodwill arising on an acquisition of a business (being the excess of the aggregate of consideration transferred and the amount of any non-controlling interest in acquiree over the fair values of net assets acquired) is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

If the fair values of net assets acquired exceed the aggregate of consideration transferred and the amount of any non-controlling interest in acquiree, the resulting gain is recognized in profit or loss as a bargain purchase gain.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.



**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Business combinations***

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

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

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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

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

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Revenue recognition prior to January 1, 2018***

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, discounts and other similar allowances.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from fixed price construction contracts is recognized under the percentage of completion method by reference to the stage of completion of the contract activity. The stage of completion is measured by calculating the proportion that costs incurred to date bear to the estimated total cost of a contract. When current estimates of total contract costs and revenues indicate a loss on the contract, provision is made for the entire loss on the contract irrespective of the amount of work done.

Revenue recognized in excess of billing represents the value of work performed but not yet billed as at the period end. Billings in excess of revenue recognized represents the excess amount billed over the value of work performed at the period end.

***Revenue recognition after January 1, 2018***

The Group recognises revenue from the following major sources:

- Sale of various manufactured goods
- Construction of various bespoke items for customers

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognizes revenue when it transfers control of a product or service to a customer.

**Sales of various manufactured goods**

For sales of goods, revenue is recognized when control of the goods has transferred, being when the goods have been delivered to the customers. A receivable is recognized by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Sales related warranties associated with goods cannot be purchased separately and they serve as an assurance that the products sold comply with agreed upon specifications. Accordingly, the Group accounts for warranties in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The Group has not raised a refund liability given the historically low level of returns in the past. It is considered highly probable that a significant reversal in the cumulative revenue recognized will not occur given the consistent low level of returns over previous years.

Contract assets comprise the amount billed in excess of work performed as at the period end. Contract liabilities comprise, in addition to advances from customers, the excess amount billed over the value of work performed at the period end.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Revenue recognition after January 1, 2018 (continued)*

Construction of various bespoke items for customers

The Group constructs various bespoke items under contracts with its customers. Such contracts are entered into before construction of the items begins. Under the terms of the contracts, the Group is and has an enforceable right to payment for work done. The Group is unable to use the items for any other purpose. Revenue from construction of these items is therefore recognized over time on a cost-to-cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15.

*Leasing prior to January 1, 2018*

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

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

*Leasing after January 1, 2018*

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Leasing after January 1, 2018 (continued)*

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 *Impairment of Assets* to determine whether a right-of-use asset is impaired.

***Foreign currency translation***

The Group's consolidated financial statements are presented in Saudi Riyals, which is its functional currency. Items included in the financial statements of each entity are measured using the functional currency of that entity.

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Saudi Riyals at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in profit or loss.

The results and financial position of a subsidiary having a reporting currency other than Saudi Riyals are translated into Saudi Riyals as follows:

- Assets and liabilities are translated at the closing exchange rate at the reporting date;
- Income and expenses are translated at average exchange rates; and
- Components of the equity account are translated at the exchange rates in effect at the dates that the related items originated.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Foreign currency translation (continued)***

Dividends received from foreign subsidiaries are translated at the exchange rate in effect at the transaction date and any related currency translation differences are included in other comprehensive income. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

***Employee benefits***

**Employee defined benefit liabilities**

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

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

The Group presents the first two components of defined benefit costs in profit or loss in relevant line items.

**Short-term employee benefits**

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

**Retirement benefits**

Defined contribution plans expenses are recorded when incurred.

***Zakat***

The Group is subject to both zakat and income tax in accordance with the Regulations of the General Authority of Zakat and Tax (“GAZT”) in the Kingdom of Saudi Arabia. The Company and its effectively 100% owned Saudi Arabian subsidiaries file zakat returns on a combined basis. The Group’s other subsidiaries file their zakat and income tax returns individually. Zakat and income tax are provided on the accruals basis. The zakat charge is computed on the higher of the zakat base or adjusted net income, while income tax is computed on the adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared. The zakat and income tax charges are included in the consolidated statement of profit or loss and other comprehensive income. Zakat and income tax are calculated using rates that have been used by the end of the reporting period.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Property, plant and equipment***

Property, plant and equipment, except land and capital work-in-progress are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Land and capital work-in-progress are stated at cost less impairment in value, if any.

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

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

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

Buildings and leasehold improvements	3% to 20%
Plant and machinery	5% to 25%
Vehicles	20% to 25%
Furniture, fixtures and office equipment	20% to 25%
Tools	20% to 33.3%

Land and capital work-in-progress are not depreciated.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

***Intangible assets***

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

The Group applies the following annual rates of amortization to its intangible assets:

Software	20%
Customer relationships	29%

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

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Impairment of tangible and intangible assets***

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that unit may be impaired by comparing the carrying amount of the unit, including goodwill, with recoverable amount of the unit. An intangible asset with an indefinite useful life is not amortized rather such an asset is tested for impairment annually, and whenever there is an indication that asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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

***Inventories and spare parts***

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

The cost of raw materials and consumable stores is determined on the weighted average basis. The cost of goods in transit is determined based on the invoice value plus other charges incurred in getting this inventory to its location at the reporting date. The cost of work-in-process and finished goods is determined on the weighted average basis which includes, inter alia, an allocation of labor and manufacturing overheads.

Spare parts represent items that may result in fixed capital expenditure but are not distinguishable. They are recorded at cost, determined on the weighted average basis.

***Cash and cash equivalents***

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

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Financial instruments prior to January 1, 2018*

Financial assets and financial liabilities are recognized when Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held-for-trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or



**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Financial instruments prior to January 1, 2018 (continued)*

Financial assets at FVTPL (continued)

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including trade and other receivables, bank balances and cash are measured at amortized cost using the effective interest method, less impairment, if any.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the present value of estimated future cash flows of the financial asset has been impacted adversely.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments in the portfolio past the credit periods as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognized in profit or loss.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Financial instruments prior to January 1, 2018 (continued)*

Impairment of financial assets (continued)

For financial assets measured at amortized cost, if any, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Financial instruments prior to January 1, 2018 (continued)*

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

*Other financial liabilities*

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

*Financial instruments after January 1, 2018*

Financial assets and financial liabilities are recognized in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Financial instruments after to January 1, 2018 (continued)*

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

*Classification of financial assets*

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

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

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

The Group does not have any debt instruments measured at FVTOCI.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). The Group does not have any financial assets measured at FVTPL.

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met as prescribed in relevant IFRS; and
- the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

*Amortized cost and effective interest method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Financial instruments after January 1, 2018 (continued)*

Financial assets (continued)

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit •impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit •impaired (see below). For financial assets that have subsequently become credit •impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit •impaired financial instrument improves so that the financial asset is no longer credit •impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset. Interest income is recognized in profit or loss.

*Foreign exchange gains and losses*

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. For financial assets measured at amortized cost, exchange differences are recognized in profit or loss.

*Impairment of financial assets*

The Group recognizes a loss allowance for expected credit losses on trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognizes lifetime Expected Credit Losses (“ECL”) for trade receivables and contract assets. The ECL on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including the time value of money where appropriate.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward •looking information that is available without undue cost or effort. Forward •looking information considered includes the future prospects of the industries in which the Group’s debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think •tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group’s core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Financial instruments after January 1, 2018 (continued)*

Financial assets (continued)

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers an event as constituting default for internal credit risk management purposes based on historical experience and professional judgement of the management that the recovery of financial assets that meet either of the following criteria is doubtful:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default can occur when a financial asset or debtor is past due by more than the allowed average credit limit of 90 days and in this case, debtors are segregated into various categories keeping in view the nature of debtors, the collateral held by the Group, past track record of debtors and any other relevant and applicable information, accordingly, the Group defines the default for each category of debtor for delay in payment beyond the allowed average credit limit unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Financial instruments after January 1, 2018 (continued)*

Financial assets (continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

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

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Financial instruments after January 1, 2018 (continued)*

Financial assets (continued)

Derecognition of financial assets (continued)

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. The Group does not have any financial liabilities measured at FVTPL.

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments and are recognized in profit or loss.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.



**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

***Provisions***

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

**Warranties**

Provisions for the expected cost of warranty obligations under applicable sale of goods legislation are recognized at the date of sale of the relevant products, at the management's best estimate of the expenditure required to settle the Group's obligation.

***Cost of sales***

Cost of sales includes all direct costs of production, including direct labor, direct materials, and overheads attributable to production.

***Expenses***

Selling and distribution expenses principally consist of costs incurred in the distribution and selling of the Group's products. All other expenses are classified as administrative expenses.

***Dividends***

Dividends are recorded in the consolidated financial statements in the year in which they are declared.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

**3.1 IFRS issued but not yet effective**

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

<b><u>New and revised IFRSs</u></b>	<b><u>Effective for annual periods beginning on or after</u></b>
Annual Improvements to IFRS Standards 2015 – 2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23	January 1, 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	January 1, 2019
The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"><li>• whether tax treatments should be considered collectively;</li><li>• assumptions for taxation authorities' examinations;</li><li>• the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and</li><li>• the effects of changes in facts and circumstances</li></ul>	
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely
Amendments to IAS 28 <i>Investment in Associates and Joint Ventures</i> relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 <i>Financial Instruments</i> to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019
IFRS 17 <i>Insurance Contracts</i>	January 1, 2021
IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach and principle-based accounting for all insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.	

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

***Impact of adoption of IFRS 15 Revenue from Contracts with Customers***

In the current year, the Group has applied IFRS 15 *Revenue from Contracts with Customers* (as amended in April 2016) which is effective for annual periods beginning on or after January 1, 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application as an adjustment to retained earnings as at January 1, 2018.

IFRS 15 uses the terms 'contract assets' and 'contract liabilities' to describe what might more commonly be known as "revenue recognized in excess of billings" and "billings in excess of revenue recognized and advances from customers" respectively, however, the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the terminology used in IFRS 15 to describe such balances.

The Group's accounting policies for its revenue streams are disclosed in detail in note 2. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had any impact on the net financial position and/or financial performance of the Group.

The impact of the application of IFRS 15 in the current reporting period is as follows:

	Balance under previous IFRS SR'000	IFRS 15 adjustment SR'000	Balance reported under IFRS 15 SR'000
Trade and other receivables	631,908	(26,896)	605,012
Contract assets	-	26,896	26,896
Trade and other payables	333,505	(39,872)	293,633
Contract liabilities	-	39,872	39,872

There was no impact on the loss for the year resulting from the adoption of IFRS 15.

The previously reported amount of revenue recognized in excess of billings was SR 9.24 million as at December 31, 2017. This amount was grouped with billings in excess of revenue recognized of SR 4.50 million which has now been reclassified to contract liabilities. The statement of cash flows for the year ended December 31, 2017 has been restated accordingly.

***Impact of adoption of IFRS 9 Financial Instruments***

In the current year, the Group has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for annual periods beginning on or after January 1, 2018. As permitted by the transition provisions of IFRS 9, the Group elected not to restate the comparatives. Additionally, the Group adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

*Impact of adoption of IFRS 9 Financial Instruments (continued)*

3) General hedge accounting (not applicable to the Group).

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described on the following pages.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

*Classification and measurement of financial assets*

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is January 1, 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognized as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognized as at January 1, 2018 have been restated where appropriate.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortized cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL)

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any debt investments that meet the amortized cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings.

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

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

*Impact of adoption of IFRS 9 Financial Instruments (continued)*

Classification and measurement of financial assets (continued)

The directors of the Company reviewed and assessed the Group's existing financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 on financial assets classified as loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

*Impairment of financial assets*

In relation to the impairment of financial assets, IFRS 9 requires an ECL model as opposed to an incurred credit losses model under IAS 39. The ECL model requires the Group to account for ECL and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, IFRS 9 requires the Group to recognize a loss allowance for ECL on:

- Trade receivables
- Contract assets
- Cash equivalents

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and cash equivalents in certain circumstances.

The Group has applied the simplified approach to trade receivables and has recognized lifetime ECL for these assets. No additional cumulative loss allowance was recognized as at January 1, 2018. Cash equivalents with banks are assessed to have a low credit risk as they are held with reputable banking institutions. The Group also applies the simplified approach to contract assets when these are billed and become part of trade receivables and accordingly recognizes lifetime ECL.

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Group's exposure to credit risk in the consolidated financial statements.

The application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

***Impact of early adoption of IFRS 16 Leases***

IFRS 16 Leases (as issued by the International Accounting Standards Board in January 2016) is effective on or after January 1, 2019, however, as permitted by IFRS 16, the Group has elected to early adopt this Standard effective from January 1, 2018.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 2. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The Group has applied IFRS 16 retrospectively with the cumulative effect of initially applying the Standard recognized as an adjustment to retained earnings as at January 1, 2018. Accordingly, comparative information has not been restated. The Group has measured the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application and has recognized a right-of-asset as if IFRS 16 had been applied since the commencement of the lease.

***Impact of the new definition of a lease***

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before January 1, 2018.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after January 1, 2018 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

***Impact on lessee accounting***

IFRS 16 changes how the Group accounts for leases previously classified as operating leases, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
- separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognize a provision for onerous lease contracts.

**BAWAN COMPANY AND SUBSIDIARIES**  
**(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

*Impact of early adoption of IFRS 16 Leases (continued)*

For short-term leases (lease term of 12 months or less) and leases of low-value, the Group has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within the relevant category of expenses in the consolidated statement of profit or loss.

No right-of-use asset or lease liability would have been recorded as at December 31, 2018 had IFRS 16 not been applied. Retained earnings as at this date would have been higher by SR 2.95 million had IFRS 16 not been applied.

The following table indicates the line items in the consolidated statement of profit or loss and other comprehensive income which have been impacted by the adoption of IFRS 16 for the year ended December 31, 2018:

	Amounts before application of IFRS 16 SR'000	Impact of adoption of IFRS 16 SR'000	Amounts reported SR'000
Cost of sales	(1,798,887)	1,008	<b>(1,797,879)</b>
Finance charges	(25,634)	(876)	<b>(26,510)</b>
Loss for the year	(224,455)	132	<b>(224,323)</b>
Loss and diluted loss per share (SR)	<u>(3.641)</u>	<u>0.002</u>	<u><b>(3.639)</b></u>

*Reconciliation of operating lease commitments disclosed as at December 31, 2017 to the lease liability recorded at January 1, 2018:*

	<u>SR'000</u>
Operating lease commitments disclosed as at December 31, 2017	22,145
Effect of discounting the commitments disclosed	(4,415)
Other	<u>8,935</u>
Lease liability recorded at January 1, 2018	<u><b>26,665</b></u>

Other comprises certain leases which were not considered while disclosing the off-balance sheet operating lease commitments as of December 31, 2017 and these leases have been appropriately accounted for as of January 1, 2018.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

**4.1 Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

*Impairment of trade accounts receivable*

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Trade accounts receivable are normally assessed collectively unless there is a need to assess a particular debtor on an individual basis.

At the reporting date, gross trade receivables were SR 611.08 million (December 31, 2017: SR 626.42 million) with SR 59.77 million (December 31, 2017: SR 43.00 million) being provided for. Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in profit or loss.

*Useful lives and residual values of property, plant and equipment and intangible assets*

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

*Revenue recognition*

The determination of the stage of completion for determining the amount of contract revenue to be recognized involves considerable use of estimates in determining revenue, costs and profits and in assigning the amounts to accounting periods. Changes to the original estimates may be required during the life of the contract and such estimates are reviewed on a regular periodic basis. The Group continually evaluates the assumptions, risks and uncertainties inherent in the application of this method of accounting.

*Employee defined benefit liabilities*

Employee defined benefit liabilities are determined using an actuarial valuation which requires estimates to be made of the various inputs. These estimates have been disclosed in note (24).

*Lease liabilities*

Lease liabilities are determined by calculating the present value of the lease payments using an appropriate discount rate. The Group has used a discount rate of 3.50% in this instance which represents the long term incremental borrowing rate.



**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)**

**4.1 Key sources of estimation uncertainty (continued)**

*Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at December 31, 2018 was SR 0.33 million (December 31, 2017: SR 170.10 million). Impairment tests were performed as at these dates and resulted in an impairment loss of SR 169.77 million being recognized as at December 31, 2018. Details of the impairment loss recognized and impairment test performed are set out in note 15.

**5. REVENUE**

The Group derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time. Refer to note 30 for disclosure of the revenue earned in each segment.

The transaction price allocated to unsatisfied performance obligations at December 31, 2018 amounted to SR 39.87 million (December 31, 2017: SR 38.29 million) which comprise entirely from sales of goods.

Management expects that a significant portion of contract liabilities of SR 39.87 million will be recognized as revenue in the 2019 financial year.

**6. SELLING AND DISTRIBUTION EXPENSES**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Wages, salaries and related costs	<b>21,177</b>	22,503
Transportation and shipping	<b>11,014</b>	12,062
Sales commission	<b>3,027</b>	3,038
Depreciation and amortization	<b>2,120</b>	2,849
Repairs and maintenance	<b>2,014</b>	1,944
Advertising	<b>1,168</b>	1,262
Royalties (refer note 27)	<b>561</b>	577
Delivery and insurance	<b>1,281</b>	1,259
Other expenses	<b>4,029</b>	3,609
	<b>46,391</b>	49,103

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**7. ADMINISTRATIVE EXPENSES**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Wages, salaries and related costs	<b>62,585</b>	68,297
Allowance for doubtful debts	<b>16,763</b>	13,351
Depreciation and amortization	<b>4,621</b>	3,795
Board and committee members' compensation	<b>2,266</b>	2,300
Insurance	<b>1,823</b>	2,112
Communication and utilities	<b>1,313</b>	1,720
Repairs and maintenance	<b>1,590</b>	1,537
Operating lease charges	<b>1,469</b>	1,346
Travelling	<b>1,255</b>	1,070
Other expenses	<b>15,964</b>	11,224
	<b>109,649</b>	106,752

**8. OTHER INCOME**

During the current year, other income primarily comprises scrap and material sales of SR 4.44 million and reversal of excess provision against inventories of SR 1.66 million. During the prior year, other income primarily comprises scrap and material sales of SR 5.21 million, a gain on disposal of a subsidiary of SR 3.23 million and a gain on disposal of property, plant and equipment of SR 1.12 million. The Company's share of gain on the disposal of a subsidiary was SR 1.60 million.

**9. FINANCE CHARGES**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Finance charges on amounts due to banks	<b>16,707</b>	15,040
Finance charges on loans	<b>2,457</b>	2,206
Finance charges on lease liabilities (refer note 28)	<b>876</b>	-
Others	<b>6,470</b>	5,015
	<b>26,510</b>	22,261

No finance charges were capitalized during the year. Others mainly represent charges relating to issuing the letters of credit and guarantee.

**10. ZAKAT AND INCOME TAX**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Zakat charged	<b>16,195</b>	12,656
Income tax charged	<b>24</b>	348
<b>Charged for the year</b>	<b>16,219</b>	13,004

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**10. ZAKAT AND INCOME TAX (Continued)**

*Income tax rate reconciliation*

	<b>2018</b>	2017
	<u>%</u>	<u>%</u>
Standard tax rate	<b>20.0</b>	20.0
Add/(less): Income subject to zakat	-	(16.8)
Less: Non-taxable income & non-deductible expenses	-	(2.8)
<b>Effective tax rate</b>	<u>-</u>	<u>0.4</u>

Effective tax rate for the current year is not applicable as the Group has taxable losses for the current year, however, the Group recorded income tax expense during the current year relating to prior years.

10.1 The movement in zakat payable is as follows:

	<b>2018</b>	2017
	<u>SR'000</u>	<u>SR'000</u>
Balance at beginning of the year	<b>22,501</b>	22,209
Charged to profit or loss	<b>16,195</b>	12,656
Paid during the year	<b>(19,514)</b>	(12,108)
Other adjustments	<b>5</b>	(256)
<b>Balance at end of the year</b>	<u><b>19,187</b></u>	<u>22,501</u>

10.2 The movement in income tax payable is as follows:

	<b>2018</b>	2017
	<u>SR'000</u>	<u>SR'000</u>
Balance at beginning of the year	<b>395</b>	200
Charged to profit or loss	<b>24</b>	348
Paid during the year	<b>(363)</b>	(751)
Other adjustments	<b>-</b>	598
<b>Balance at end of the year</b>	<u><b>56</b></u>	<u>395</u>

The Company and its 100% effectively owned Saudi Arabian subsidiaries submit zakat returns on a combined basis. Other Group subsidiaries submit their zakat and income tax returns independently. Zakat returns for the Company have been filed and paid for all years through to 2017 and zakat certificates have been received. During 2018, the Company received the final assessments for the years from 2010 to 2014 claiming additional zakat liability of SR 7.83 million. The Company settled the additional zakat liability for the years from 2011 to 2014 and raised an objection against 2010 final assessment by SR 2.82 million. The Company believes that outcome will be in its favor and it has sufficient provision to cover the additional zakat liability. The final assessments for the years 2015 to 2017 are currently under review by GAZT.

The status of the final zakat and income tax assessments of the other Group's subsidiaries is disclosed in their respective financial statements.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**11. EMPLOYEE BENEFITS EXPENSES**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Employee defined benefit liabilities (refer note 24)	<b>10,990</b>	11,096
Other employee benefits	<b>176,465</b>	180,829
	<b>187,455</b>	191,925

**12. (LOSS) EARNINGS PER SHARE**

Basic and diluted (loss) earnings per share are computed based on (loss) profit attributable to owners of the Company divided by the weighted average number of shares issued of 60 million.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**13. PROPERTY, PLANT AND EQUIPMENT**

<b>COST</b>	Land SR'000	Building and leasehold improvement SR'000	Plant and machinery SR'000	Vehicles SR'000	Furniture, fixture and office equipment SR'000	Tools SR'000	Capital work- in progress SR'000	Total SR'000
<b>January 1, 2017</b>	<b>54,651</b>	<b>246,631</b>	<b>392,077</b>	<b>87,845</b>	<b>34,496</b>	<b>12,638</b>	<b>40,266</b>	<b>868,604</b>
Additions	-	1,389	8,374	2,042	685	2,717	23,961	39,168
Acquisition of a subsidiary (refer note 35)	-	-	-	-	-	-	8,000	8,000
Disposals	-	(109)	(10,120)	(2,739)	(551)	(74)	-	(13,593)
Disposal of a subsidiary (refer note 34.2)	(7,252)	-	(1,151)	-	-	-	-	(8,403)
Transfers	-	13,921	14,214	(118)	468	-	(28,485)	-
Transfer to intangible assets (refer note 16)	-	-	-	-	-	-	(328)	(328)
Adjustments	-	(61)	(295)	(82)	(1)	-	-	(439)
<b>December 31, 2017</b>	<b>47,399</b>	<b>261,771</b>	<b>403,099</b>	<b>86,948</b>	<b>35,097</b>	<b>15,281</b>	<b>43,414</b>	<b>893,009</b>
<b>ACCUMULATED DEPRECIATION</b>								
<b>January 1, 2017</b>	-	<b>108,865</b>	<b>203,655</b>	<b>47,914</b>	<b>27,955</b>	<b>10,294</b>	-	<b>398,683</b>
Charge for the year	-	12,438	28,921	8,255	2,155	961	-	52,730
Disposals	-	(69)	(9,612)	(2,540)	(509)	(72)	-	(12,802)
Disposal of a subsidiary (refer note 34.2)	-	-	(408)	-	-	-	-	(408)
Adjustments	-	-	(13)	(43)	-	-	-	(56)
<b>December 31, 2017</b>	-	<b>121,234</b>	<b>222,543</b>	<b>53,586</b>	<b>29,601</b>	<b>11,183</b>	-	<b>438,147</b>
<b>NET BOOK VALUE</b>								
<b>January 1, 2017</b>	<b>54,651</b>	<b>137,766</b>	<b>188,422</b>	<b>39,931</b>	<b>6,541</b>	<b>2,344</b>	<b>40,266</b>	<b>469,921</b>
<b>December 31, 2017</b>	<b>47,399</b>	<b>140,537</b>	<b>180,556</b>	<b>33,362</b>	<b>5,496</b>	<b>4,098</b>	<b>43,414</b>	<b>454,862</b>

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**13. PROPERTY, PLANT AND EQUIPMENT (Continued)**

<b>COST</b>	Land SR'000	Building and leasehold improvement SR'000	Plant and machinery SR'000	Vehicles SR'000	Furniture, fixture and office equipment SR'000	Tools SR'000	Capital work- in progress SR'000	Total SR'000
<b>January 1, 2018</b>	<b>47,399</b>	<b>261,771</b>	<b>403,099</b>	<b>86,948</b>	<b>35,097</b>	<b>15,281</b>	<b>43,414</b>	<b>893,009</b>
Additions	-	408	13,523	5,009	497	385	25,076	44,898
Disposals	-	(1,126)	(201)	(1,314)	(128)	(15)	-	(2,784)
Transfers	-	5,108	2,018	-	364	-	(7,545)	(55)
Adjustments	-	(32)	(45)	(5)	(1)	-	(11)	(94)
<b>December 31, 2018</b>	<b>47,399</b>	<b>266,129</b>	<b>418,394</b>	<b>90,638</b>	<b>35,829</b>	<b>15,651</b>	<b>60,934</b>	<b>934,974</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>								
<b>January 1, 2018</b>	-	<b>121,234</b>	<b>222,543</b>	<b>53,586</b>	<b>29,601</b>	<b>11,183</b>	-	<b>438,147</b>
Charge for the year	-	12,204	24,175	9,200	2,114	696	-	48,389
Impairment loss	9,574	4,167	4,648	217	87	704	-	19,397
Disposals	-	(1,068)	(151)	(1,187)	(126)	(15)	-	(2,547)
Transfers	-	(55)	-	-	-	-	-	(55)
Adjustments	-	(1)	(2)	-	-	-	-	(3)
<b>December 31, 2018</b>	<b>9,574</b>	<b>136,481</b>	<b>251,213</b>	<b>61,816</b>	<b>31,676</b>	<b>12,568</b>	-	<b>503,328</b>
<b>NET BOOK VALUE</b>								
<b>January 1, 2018</b>	<b>47,399</b>	<b>140,537</b>	<b>180,556</b>	<b>33,362</b>	<b>5,496</b>	<b>4,098</b>	<b>43,414</b>	<b>454,862</b>
<b>December 31, 2018</b>	<b>37,825</b>	<b>129,648</b>	<b>167,181</b>	<b>28,822</b>	<b>4,153</b>	<b>3,083</b>	<b>60,934</b>	<b>431,646</b>

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**13. PROPERTY, PLANT AND EQUIPMENT** *(Continued)*

Certain items of property, plant and equipment are secured by the Saudi Industrial Development Fund ("SIDF") loans (see note 22.2.3).

Some of the buildings are located on land leased from the Government. The lease contracts are renewable at the option of both the parties (refer note 23).

Capital work-in-progress mainly comprises building and leasehold improvement and items of plant and machinery in the course of construction and installation.

Adjustments also include foreign currency translation adjustments.

**14. RIGHT-OF-USE ASSETS**

The Group leases certain of its premises. The lease terms on the various leases is between 3 years and 25 years. The Group's obligations are secured by the lessors' title to the leased assets.

The net carrying amount of the right-of-use asset is stated in the consolidated statement of financial position.

The depreciation expense for the year ended December 31, 2018 for right-of-use assets was SR 3.24 million (refer note 28).

Three of the leases expired and were renewed during the year. The expired contracts were replaced by new leases for identical underlying assets. In addition, one new lease was entered into during the year. This resulted in additions to right-of-use assets of SR 3.28 million.

**15. GOODWILL**

	<b>December 31, 2018 SR'000</b>	December 31, 2017 SR'000
<b>Cost:</b>		
Balance at beginning and end of the year	<u><b>170,101</b></u>	<u>170,101</u>
<b>Accumulated impairment:</b>		
Impairment loss for the year	<u><b>169,770</b></u>	<u>-</u>
Balance at end of the year	<u><b>169,770</b></u>	<u>-</u>
<b>Net book value:</b>		
December 31	<u><b>331</b></u>	<u>170,101</u>

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**15. GOODWILL (Continued)**

The carrying amount of goodwill has been allocated to the following cash generating units:

	<b>December 31, 2018 SR'000</b>	December 31, 2017 SR'000
Inma Pallets	<b>331</b>	331
Utec–Saudi (refer 15.2)	-	169,770
	<b>331</b>	170,101

15.1 The recoverable amounts of the above cash generating units have been determined using a value-in-use calculation which incorporates cash flow projections for a five-year period based on approved budgets. These budgets were approved by the management. A discount rate of 10.49% per annum (2017: 9.67% per annum) was used to discount the future cash flows to present value.

Impairment tests were performed as at December 31, 2018 and 2017.

**15.2 Utec–Saudi**

Revenue growth from 2014 to 2018 was at an average of negative 16%. Management estimated revenue growth from 2019 to 2023 at an average of 11%. The earnings before interest, zakat and taxation, depreciation and amortization (“EBITDA”) margin from 2014 to 2018 was at an average of 8%. Management estimated the EBITDA margin from 2019 to 2023 at an average of 5%. Management believes that the assumptions used are reasonable.

Significant changes with an adverse effect on Utec–Saudi have taken place in the local economic and market conditions which led to recognition of impairment loss of goodwill of SR 169.77 million. As at December 31, 2018, the recoverable amount of Utec–Saudi was SR 162.96 million.

**15.3 Sensitivity analyses**

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

	<b>December 31, 2018 SR'000</b>	December 31, 2017 SR'000
Increase in discount rate by 0.5%	<b>(13,914)</b>	(31,617)
Decrease in discount rate by 0.5%	<b>15,677</b>	35,942
Increase in long-term growth rate by 0.5%	<b>4,647</b>	26,992
Decrease in long-term growth rate by 0.5%	<b>(4,194)</b>	(23,778)

Management considers that changes to the discount rate could cause the carrying value of the cash generating units to exceed their recoverable amounts. If the discount rate is decreased by 3.76% (December 31, 2017: increased by 0.70%), the recoverable amounts approximately equal to the carrying values.



**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**16. OTHER INTANGIBLE ASSETS**

	Software	Customer relationships	Total
	SR'000	SR'000	SR'000
<b>COST</b>			
<b>January 1, 2017</b>	<b>10,839</b>	<b>3,881</b>	<b>14,720</b>
Additions	8	-	8
Transferred from property, plant and equipment (refer note 13)	328	-	328
<b>December 31, 2017</b>	<b>11,175</b>	<b>3,881</b>	<b>15,056</b>
<b>ACCUMULATED AMORTIZATION</b>			
<b>January 1, 2017</b>	<b>6,809</b>	<b>2,772</b>	<b>9,581</b>
Amortization	1,513	1,109	2,622
<b>December 31, 2017</b>	<b>8,322</b>	<b>3,881</b>	<b>12,203</b>
<b>NET BOOK VALUE</b>			
<b>December 31, 2017</b>	<b>2,853</b>	<b>-</b>	<b>2,853</b>
<b>COST</b>			
<b>January 1, 2018</b>	<b>11,175</b>	<b>3,881</b>	<b>15,056</b>
Additions	35	-	35
<b>December 31, 2018</b>	<b>11,210</b>	<b>3,881</b>	<b>15,091</b>
<b>ACCUMULATED AMORTIZATION</b>			
<b>January 1, 2018</b>	<b>8,322</b>	<b>3,881</b>	<b>12,203</b>
Amortization	1,562	-	1,562
<b>December 31, 2018</b>	<b>9,884</b>	<b>3,881</b>	<b>13,765</b>
<b>NET BOOK VALUE</b>			
<b>December 31, 2018</b>	<b>1,326</b>	<b>-</b>	<b>1,326</b>

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**17. INVENTORIES**

	<b>December 31, 2018 SR'000</b>	December 31, 2017 SR'000
Raw materials	383,109	340,080
Finished goods	115,838	109,676
Goods in transit	27,636	23,371
Work-in-process	26,767	23,856
Consumables	2,412	3,004
	<u>555,762</u>	<u>499,987</u>
Cost of inventories recognized as an expense during the year	1,780,118	1,607,081
Carrying value of inventories held at net realizable value	26,341	24,391
Inventory write-downs during the year	<u>2,856</u>	<u>2,494</u>

**18. TRADE AND OTHER RECEIVABLES**

	<b>December 31, 2018 SR'000</b>	December 31, 2017 SR'000
Trade receivables – external parties	548,895	576,365
Trade receivables – related parties (refer note 27)	48,854	37,315
Retention receivables	13,334	12,742
Less: allowance for doubtful debts	<u>(59,766)</u>	<u>(43,003)</u>
Net trade receivables	551,317	583,419
Prepayments	27,170	25,047
Advances to suppliers	18,035	16,470
Amounts due from employees	3,661	3,209
Refundable value added tax	3,550	-
Cash margins for letters of credit	2,604	11,012
Due from related parties (refer note 27)	1,219	638
Other receivables	3,216	4,562
	<u>610,772</u>	<u>644,357</u>
Analyzed between:		
Current assets	605,012	636,894
Non-current assets	<u>5,760</u>	<u>7,463</u>
	<u>610,772</u>	<u>644,357</u>

Trade receivables

The Group's average credit period on sales of goods is 90 days. No interest is charged on outstanding trade receivables.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**18. TRADE AND OTHER RECEIVABLES (Continued)**

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

The following table details the risk profile of trade receivables based on the provision matrix at each subsidiary. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished by customer segment.

	<b>Trade receivable – days past due</b>						<b>Total SR'000</b>
	<b>Not past due SR'000</b>	<b>91-180 SR'000</b>	<b>181-360 SR'000</b>	<b>361-720 SR'000</b>	<b>721-1080 SR'000</b>	<b>&gt;1080 SR'000</b>	
<b>December 31, 2018</b>							
Gross carrying amount	303,558	97,283	49,666	32,935	38,071	27,382	548,895
ECL rate %	0.06	0.96	11.02	39.51	48.09	67.69	
Lifetime ECL	197	937	5,474	13,012	18,309	18,535	56,464
<b>December 31, 2017</b>							
Gross carrying amount	371,765	90,307	40,497	65,288	8,213	295	576,365
ECL rate %	1.78	2.66	11.80	40.93	27.00	95.25	
Lifetime ECL	6,606	2,400	4,777	26,724	2,215	281	43,003

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**18. TRADE AND OTHER RECEIVABLES (Continued)**

The following table shows the movement in lifetime ECL that has been recognized for trade receivables in accordance with the simplified approach set out in IFRS 9.

	Collectively assessed SR'000	Individually assessed SR'000	<b>Total SR'000</b>
Balance at January 1, 2018 under IAS 39 and IFRS 9	<b>43,003</b>	-	<b>43,003</b>
Net remeasurement of loss allowance	<b>13,461</b>	<b>3,302</b>	<b>16,763</b>
	<b>56,464</b>	<b>3,302</b>	<b>59,766</b>

The change in the loss allowance during the year was mainly due to change in credit risks.

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

There are no customers who comprise more than 10% of the total trade receivables balance.

**19. CONTRACT ASSETS**

Contract assets entirely comprise revenue recognized in excess of billings arising entirely from sale of goods. Any amount previously recognized as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

The directors of the Company measure the loss allowance on contract assets at an amount equal to lifetime ECL. The Group applies the simplified approach to contract assets when these are billed and become part of trade receivables and accordingly recognizes lifetime ECL.

**20. ISSUED CAPITAL**

	<b>December 31, 2018 SR'000</b>	December 31, 2017 SR'000
60 million ordinary shares of SR 10 each	<b>600,000</b>	600,000

**21. STATUTORY RESERVE**

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

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**22. AMOUNTS DUE TO BANKS AND LOANS**

	<b>December 31, 2018 SR'000</b>	December 31, 2017 SR'000
<b>22.1 Amounts due to banks</b>	<b>528,288</b>	423,536

The Group has obtained bank facilities ("the Facilities") in the form of short-term loans, Islamic Murabaha, forward exchange contracts and letters of credit and guarantee. The Facilities carry interest at prevailing market rates and are secured by promissory notes and corporate guarantees of the Group. The Facilities agreements contain covenants requiring maintenance of certain financial ratios.

**22.2 Loans**

	<b>December 31, 2018 SR'000</b>	December 31, 2017 SR'000
22.2.1 Bank loans	<b>18,631</b>	35,104
22.2.2 Other loan	<b>13,315</b>	7,504
22.2.3 SIDF loans	<b>6,400</b>	7,350
Less: debt arrangement costs on SIDF loans	<b>(178)</b>	(272)
Total loans	<b>38,168</b>	49,686
Less: current portion included in current liabilities	<b>(17,667)</b>	(17,328)
	<b>20,501</b>	32,358

22.2.1 The Group has obtained bank loans from local banks which are repayable in quarterly/semi-annual installments. The loans carry interest at prevailing market rates and are secured by promissory notes and corporate guarantees of the Group. The loan's agreements contain covenants requiring maintenance of certain financial ratios. The final repayment is due in 2021.

22.2.2 A subsidiary of the Group has obtained a loan from one of its shareholders. The loan is unsecured, does not bear finance costs and is repayable during 2022.

22.2.3 The Group has obtained loans from the SIDF for the construction and expansion of its concrete segment plants. These loans are guaranteed by promissory notes, corporate guarantees of the Group and mortgages of property, plant and equipment with a carrying value of SR 53.26 million as at December 31, 2018 (December 31, 2017: SR 60.11 million). The loan agreements contain covenants requiring maintenance of certain financial ratios. The final repayment is due in 2022.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**22. AMOUNTS DUE TO BANKS AND LOANS (Continued)**

**22.3** Analysis of change in amounts due to banks and loans for the year ended December 31, 2018 is as follows:

	<b>Amounts due to banks SR'000</b>	<b>Loans SR'000</b>	<b>Total SR'000</b>
Balance at the beginning of the year	423,536	49,686	473,222
Amounts raised	1,420,581	6,045	1,426,626
Amounts repaid	(1,315,829)	(17,423)	(1,333,252)
Effect of exchange rate changes	-	(234)	(234)
Debt arrangement costs on SIDF loans	-	94	94
<b>Balance at the end of the year</b>	<b>528,288</b>	<b>38,168</b>	<b>566,456</b>

**23. LEASE LIABILITIES**

	<b>December 31, 2018 SR'000</b>
Total lease liabilities	26,568
Less: current portion included in current liabilities	(3,180)
	<b>23,388</b>

The following table details the Group's remaining contractual maturity for its lease liabilities. The table has been drawn up based on the undiscounted cash flows of the lease liabilities. The table includes both interest and principal cash flows.

	<b>December 31, 2018 SR'000</b>
Within one year	4,026
Greater than one year to five years	11,347
Over five years	17,139
	<b>32,512</b>

The Group does not face a significant liquidity risk with regard to its lease liabilities, which are monitored to determine that these are settled in accordance with the relevant lease agreements.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**24. EMPLOYEE DEFINED BENEFIT LIABILITIES**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Balance at the beginning of the year	<b>69,444</b>	67,876
Current service cost (refer note 11)	<b>8,809</b>	8,713
Interest cost (refer note 11)	<b>2,181</b>	2,383
Paid during the year	<b>(7,976)</b>	(11,302)
Transferred	<b>-</b>	(32)
Remeasurement (gains) losses	<b>(11,457)</b>	1,806
<b>Balance at the end of the year</b>	<b>61,001</b>	69,444

Actuarial valuations were performed by an independent qualified actuary using the projected unit credit method.

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

	<b>December 31,</b>	December 31,
	<b>2018</b>	2017
	<b>%</b>	%
Discount rate	<b>4.50</b>	3.10
Rate of salary increases	<b>3.00</b>	3.00

All movements in the employee defined benefit liabilities are recognized in profit or loss except for the remeasurement gains or losses which are recognized in other comprehensive income.

The actuary increased the discount rate to reflect the changes in applicable market yields.

Sensitivity analyses

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

	<b>December 31,</b>	December 31,
	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Increase in discount rate by 0.5%	<b>(3,669)</b>	(4,538)
Decrease in discount rate by 0.5%	<b>1,975</b>	2,704
Increase in rate of salary increase by 0.5%	<b>1,917</b>	2,589
Decrease in rate of salary increase by 0.5%	<b>(3,638)</b>	(4,467)

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**25. TRADE AND OTHER PAYABLES**

	<b>December 31, 2018 SR'000</b>	December 31, 2017 SR'000
Trade payables – external parties	<b>226,423</b>	251,154
Payables – related parties (refer note 27)	<b>17,292</b>	6,766
Employee related accruals	<b>15,217</b>	22,447
Accrued finance charges	<b>4,463</b>	2,331
Accrued commission	<b>2,342</b>	2,368
Accrued directors' compensation	<b>1,630</b>	1,800
Warranty provisions	<b>1,193</b>	2,203
Other payables and accruals	<b>25,074</b>	17,698
	<b><u>293,634</u></b>	<u>306,767</u>

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

The movement in the warranty provision is as follows:

	<b>2018 SR'000</b>	2017 SR'000
Balance at the beginning of the year	<b>2,203</b>	2,491
Raised during the year	<b>312</b>	285
Reversed during the year	<b>(574)</b>	-
Utilized during the year	<b>(748)</b>	(573)
<b>Balance at the end of the year</b>	<b><u>1,193</u></b>	<u>2,203</u>

**26. CONTRACT LIABILITIES**

Contract liabilities comprise the following:

	<b>2018 SR'000</b>	2017 SR'000
Advances from customers	<b>36,340</b>	33,792
Billings in excess of revenue recognized	<b>3,532</b>	4,494
	<b><u>39,872</u></b>	<u>38,286</u>

Contract liabilities of SR 20.10 million raised in the prior year were recognized as revenue in the current year. All of this amount related to the sale of goods. There was no revenue recognized in the current reporting period that related to performance obligations that were satisfied in a prior year.



**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**27. RELATED PARTY INFORMATION**

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

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Sales of goods	<b>173,107</b>	168,153
Purchases	<b>41,766</b>	16,033
Royalties (refer note 6)	<b>561</b>	577
Rent	<b>100</b>	-

The above transactions were conducted during the normal course of business and the terms and conditions were approved by the management.

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

	<b>December 31,</b>	December 31,
	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Trade receivables (refer note 18)	<b>48,854</b>	37,315
Non-trade receivables (refer note 18)	<b>1,219</b>	638
Trade payables (refer note 25)	<b>16,261</b>	5,303
Non-trade payables (refer note 25)	<b>1,031</b>	1,463

The amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given or received. No amount has been expensed in the current year for bad or doubtful debts in respect of amounts owed by related parties.

During the year, short-term and long-term employment benefits to the Company's key management personnel amounted to SR 3.91 million (December 31, 2017: SR 5.08 million)

**28. LEASES (GROUP AS A LESSEE)**

The following amounts were recognized in profit or loss relating to leases:

	<b>2018</b>
	<b>SR'000</b>
Depreciation expense on right-of-use assets (refer note 14)	<b>3,244</b>
Interest expense on lease liabilities (refer note 9)	<b>876</b>
Expenses relating to short-term leases	<b>87</b>

The Group does not have any leases which contain variable lease payment terms.

**29. CAPITAL COMMITMENTS AND CONTINGENCIES**

The Group had capital commitments of SR 15.86 million (December 31, 2017: SR 20.35 million;) and contingencies in the form of letters of credit and guarantee of SR 454.79 million (December 31, 2017: SR 538.08 million) at the reporting date.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**30. SEGMENT INFORMATION**

Information reported to the chief operating decision maker ("CODM") for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The directors of the Company have chosen to organise the Group around differences in internal reporting structure.

The Group's operating segments are as follows:

- Metal and Wood
- Electrical
- Concrete
- Head Office

**30.1 Segment revenues and results**

	2018		2017	
	Revenue SR'000	Profit (loss) for the year SR'000	Revenue SR'000	Profit (loss) for the year SR'000
<b>Segment</b>				
Metal and Wood	1,537,121	26,121	1,583,084	72,664
Electrical	262,139	(234,783)	360,353	6,084
Concrete	154,195	(4,917)	185,315	17,984
Head Office	-	(10,744)	-	(13,370)
	1,953,455	(224,323)	2,128,752	83,362
	December 31, 2018		December 31, 2017	
<b>Segment</b>	Assets SR'000	Liabilities SR'000	Assets SR'000	Liabilities SR'000
Metal and Wood	952,028	566,205	928,680	528,683
Electrical	492,163	294,215	669,709	236,320
Concrete	264,923	142,358	254,858	127,602
Head Office	1,521	11,759	2,033	18,342
	1,710,635	1,014,537	1,855,280	910,947

Segment revenues reported represent revenue generated from both external customers and related parties. There were no significant inter-segment revenues during the years 2018 and 2017.

The majority of the Group's operating assets and principal markets of activity are located in the Kingdom of Saudi Arabia.

The impairment losses of SR 169.77 million and SR 19.40 million recognized in respect of goodwill and property, plant and equipment respectively were attributable to the Electrical segment. Significant changes with an adverse effect on the Electrical segment have taken place in the local economic and market conditions which led to recognition of impairment losses of goodwill and property, plant and equipment.

There are no customers who contributed more than 10% of the Group's total revenue.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**31. SUBSIDIARIES**

Details of the Group's direct and indirect subsidiaries as at December 31, 2018 and December 31, 2017 are as follows:

<u>Name</u>	<u>Principal activity</u>	<u>Country of incorporation and operation</u>	<u>Ownership interest and voting power</u>
Bawan Wood	Manufacturing of wood products	Saudi Arabia	95%
United Wood and Metal	Manufacturing of wood/metal products	Saudi Arabia	95%
Al-Raya Wood Works Establishment	Manufacturing of wood products	United Arab Emirates	100%
Al-Raya Company for Wood Works	Manufacturing of wood products	Kuwait	100%
Inma Pallets	Manufacturing of wood products	Saudi Arabia	100%
United Lines Logistics Services Company Limited (it was dormant in 2017)	Logistic services	Saudi Arabia	100%
Bawan Metal	Manufacturing of metal products	Saudi Arabia	100%
BCBC	Dormant/under liquidation	Saudi Arabia	100%
Bawan Engineering	Intermediate holding company	Saudi Arabia	100%
Utec–Saudi	Manufacturing of electrical products	Saudi Arabia	85.5%
Utec–Algeria	Manufacturing of electrical products	Algeria	49%
USSG	Manufacturing of electrical products	Saudi Arabia	85.5%
Bawan Electric Company Limited	Manufacturing of electrical products	Saudi Arabia	100%
Bawan Mechanical Works Company Limited	Dormant/under liquidation	Saudi Arabia	100%
Bina Holding	Intermediate holding company	Saudi Arabia	56.75%
Bina Ready-Mix	Manufacturing of concrete products	Saudi Arabia	100%
Bina Precast	Manufacturing of concrete products	Saudi Arabia	93.2%
Al-Ahliyah Transport Company Limited	Dormant	Saudi Arabia	100%
Total Building Company	Dormant	Saudi Arabia	100%

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**31. SUBSIDIARIES (Continued)**

**31.1 Composition of the group**

Information about the composition of the Group as at December 31, 2018 is as follows:

<u>Principal activity</u>	<u>Country of incorporation and operation</u>	<u>Number of effectively wholly-owned subsidiaries</u>
Manufacturing of metal products	Saudi Arabia	1
Under liquidation	Saudi Arabia	2
Intermediate holding company	Saudi Arabia	1
Manufacturing of electrical products	Saudi Arabia	1
		5
		5
<u>Principal activity</u>	<u>Country of incorporation and operation</u>	<u>Number of non wholly-owned subsidiaries</u>
Manufacturing of wood/metal products and logistic services	Saudi Arabia	3
	UAE	1
	Kuwait	1
Intermediate holding company	Saudi Arabia	1
Manufacturing of electrical products	Saudi Arabia	2
	Algeria	1
Manufacturing of concrete products	Saudi Arabia	2
Dormant	Saudi Arabia	3
		14
		14

**31.2 Details of non-wholly owned subsidiaries that have material non-controlling interests**

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests as at December 31, 2018:

<u>Name of subsidiary</u>	<u>Voting rights held</u>	<u>Profit allocated to non-controlling interests SR'000</u>	<u>Accumulated non-controlling interests SR'000</u>
Utec–Saudi	85.50%	(4,890)	33,341
Bina Holding	56.75%	(2,032)	44,161
Individually immaterial subsidiaries with non-controlling interests		952	11,981
		(5,970)	89,483

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**31. SUBSIDIARIES (Continued)**

**31.2 Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)**

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests as at December 31, 2017:

<u>Name of subsidiary</u>	<u>Voting rights held</u>	<u>Profit allocated to non-controlling interests SR'000</u>	<u>Accumulated non-controlling interests SR'000</u>
Utec-Saudi	85.50%	2,082	43,210
Bina Holding	56.75%	8,021	45,710
Individually immaterial subsidiaries with non-controlling interests		2,246	13,376
		<u>12,349</u>	<u>102,296</u>

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**31. SUBSIDIARIES (Continued)**

**31.2 Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)**

Both subsidiaries detailed above are incorporated and operate in Saudi Arabia.

Utec–Saudi owns 49% of the shares in Utec–Algeria. However, based on the contractual arrangements between the Utec–Saudi and other investors, the Group has the majority of the voting rights. Therefore, the directors of the Group concluded that the Group has control over Utec–Algeria and accordingly Utec–Algeria was consolidated in these financial statements.

Summarized consolidated financial information in respect of each of the Group’s subsidiaries that has material non-controlling interests is set out below. The summarized consolidated financial information below represents amounts before intragroup eliminations.

	<b>December 31, 2018 SR'000</b>	December 31, 2017 SR'000
<b>Utec–Saudi Statement of Financial Position</b>		
Non-current assets	<u>99,465</u>	<u>86,121</u>
Current assets	<u>337,502</u>	<u>314,104</u>
Non-current liabilities	<u>25,266</u>	<u>21,126</u>
Current liabilities	<u>247,586</u>	<u>151,547</u>
Equity attributable to owners of the company	<u>150,550</u>	<u>212,414</u>
Non-controlling interests	<u>13,565</u>	<u>15,138</u>
	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
<b>Utec–Saudi Statement of Profit or Loss and Other Comprehensive Income</b>		
Revenue	<u>180,707</u>	256,033
Expenses	<u>(210,671)</u>	<u>(238,745)</u>
(Loss) profit for the year	<u>(29,964)</u>	<u>17,288</u>
(Loss) profit attributable to owners of the company	<u>(28,844)</u>	17,732
Loss attributable to non-controlling interests	<u>(1,120)</u>	<u>(444)</u>
(Loss) profit for the year	<u>(29,964)</u>	<u>17,288</u>
Other comprehensive income (loss) attributable to owners of the company	<u>2,204</u>	<u>(428)</u>
Other comprehensive loss attributable to non-controlling interests	<u>(452)</u>	<u>(412)</u>
Other comprehensive income (loss) for the year	<u>1,752</u>	<u>(840)</u>
<b>Utec–Saudi Statement of Cash Flows</b>		
Cash flows from operating activities	<u>(61,104)</u>	34,824
Cash flows from investing activities	<u>(13,344)</u>	<u>(6,877)</u>
Cash flows from financing activities	<u>74,059</u>	<u>(45,793)</u>
Net cash outflow for the year	<u>(389)</u>	<u>(17,846)</u>

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**31. SUBSIDIARIES (Continued)**

**31.2 Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)**

	<b>December 31, 2018 SR'000</b>	December 31, 2017 SR'000
<b>Bina Holding Statement of Financial Position</b>		
Non-current assets	<b>118,029</b>	130,206
Current assets	<b>139,792</b>	120,445
Non-current liabilities	<b>15,558</b>	19,151
Current liabilities	<b>126,511</b>	112,910
Equity attributable to owners of the company	<b>111,350</b>	114,283
Non-controlling interests	<b>4,402</b>	4,307
	<b>2018 SR'000</b>	2017 SR'000
<b>Bina Holding Statement of Profit or Loss and Other Comprehensive Income</b>		
Revenue	<b>154,195</b>	185,315
Expenses	<b>(159,081)</b>	(167,324)
(Loss) profit for the year	<b>(4,886)</b>	17,991
(Loss) profit attributable to owners of the company	<b>(4,861)</b>	17,490
(Loss) profit attributable to non-controlling interests	<b>(25)</b>	501
(Loss) profit for the year	<b>(4,886)</b>	17,991
Other comprehensive income (loss) attributable to owners of the Company	<b>1,112</b>	(260)
Other comprehensive income (loss) attributable to non-controlling interests	<b>928</b>	(16)
Other comprehensive income (loss) for the year	<b>2,040</b>	(276)
<b>Bina Holding Statement of Cash Flows</b>		
Cash flows from operating activities	<b>(4,039)</b>	573
Cash flows from investing activities	<b>12,177</b>	11,526
Cash flows from financing activities	<b>(11,843)</b>	(8,323)
Net cash (outflow) inflow for the year	<b>(3,705)</b>	3,776

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**32. FINANCIAL INSTRUMENTS**

**Capital management**

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

The capital structure of the Group consists of equity and debt comprising share capital, the statutory reserve, (accumulated losses) retained earnings, foreign currency translation reserve, amounts due to banks and loans.

**Categories of financial instruments**

	<b>December 31, 2018 SR'000</b>	December 31, 2017 SR'000
<b>Financial assets</b>		
<i>Amortized cost</i>		
Cash and cash equivalent	42,637	52,544
Trade and other receivables	<u>565,567</u>	<u>602,840</u>
<b>Financial liabilities</b>		
<i>Amortized cost</i>		
Trade and other payables	292,441	304,564
Amounts due to banks	528,288	423,536
Loans	38,168	49,686
Lease liabilities	<u>26,568</u>	<u>-</u>

**Market risk**

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

**Foreign currency risk management**

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

**Interest rate and liquidity risks management**

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

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



**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**32. FINANCIAL INSTRUMENTS (Continued)**

**Interest rate and liquidity risks management (continued)**

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would have decreased or increased by SR 2.83 million (December 31, 2017: SR 2.37 million). The Group's exposure to interest rates has increased during the year primarily as a result of an increase in amounts due to banks.

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

<b>December 31, 2018</b>	Interest rate %	Within one year SR'000	One year to five years SR'000	Total SR'000
Loans	<b>4.07%</b>	<b>18,354</b>	<b>20,664</b>	<b>39,018</b>
Amounts due to banks	<b>4.03%</b>	<b>538,208</b>	-	<b>538,208</b>
Trade and other payables	<b>Interest free</b>	<b>292,441</b>	-	<b>292,441</b>
<b>Total</b>		<b>849,003</b>	<b>20,664</b>	<b>869,667</b>
<b>December 31, 2017</b>				
Loans	3.54%	18,040	32,769	50,809
Amounts due to banks	3.25%	430,697	-	430,697
Trade and other payables	Interest free	304,564	-	304,564
<b>Total</b>		<b>753,301</b>	<b>32,769</b>	<b>786,070</b>

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**32. FINANCIAL INSTRUMENTS (Continued)**

**Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Potential concentrations of credit risk consist principally of trade receivables, amounts due from a related party and short-term cash investments. Details of how credit risk relating to trade receivables is managed are disclosed in note 18. The amounts due from a related party are monitored and provision is made, where necessary, for any irrecoverable amounts. Short-term cash investments are only placed with banks with a high credit rating. The Group does not hold any collateral to cover the credit risk associated with its financial assets.

**Fair value of financial instruments**

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

**33. RETIREMENT BENEFIT INFORMATION**

The Group makes contributions for a defined contribution retirement benefit plan to the General Organization for Social Insurance in respect of its Saudi employees. The total amount expensed during the year in respect of this plan was SR 5.20 million (December 31, 2017: SR 5.92 million). The Group also has defined benefit plan (refer note 24).

**34. NET CASH INFLOW ON DISPOSAL OF SUBSIDIARY**

During the prior year, the Group disposed of its interest in Utec-Syria.

**34.1 Consideration received:**

	<b>2017</b>
	<b>SR'000</b>
Consideration received in cash and cash equivalents	16,198
Deferred sales proceeds	284
	<u>16,482</u>

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**34. NET CASH INFLOW ON DISPOSAL OF SUBSIDIARY (Continued)**

**34.2 Analysis of assets and liabilities over which control was lost:**

	<b>2017</b>
	<b>SR'000</b>
<b>Analysis of assets and liabilities over which control was lost</b>	
<b>Non-current assets</b>	
Property, plant and equipment (refer note 13)	7,995
<b>Current assets</b>	
Trade and other receivables	158
Inventory	842
Cash and cash equivalents	1,298
<b>Non-current liabilities</b>	
Employee defined benefit liabilities	(56)
<b>Current liabilities</b>	
Trade and other payables	(106)
<b>Net assets disposed of</b>	<b>10,131</b>

**34.3 Gain on disposal of subsidiary**

	<b>2017</b>
	<b>SR'000</b>
Consideration received	16,482
Net assets disposed of	(10,131)
Non-controlling interest	(3,122)
	<b>3,229</b>

**34.4 Consideration received**

	<b>2017</b>
	<b>SR'000</b>
Consideration received in cash and cash equivalents	16,198
Less: cash and cash equivalents disposed of	(1,298)
	<b>14,900</b>

**35. NET CASH OUTFLOW ON ACQUISITION OF SUBSIDIARY**

On July 19, 2017, the Group acquired 100% of the share capital in United Lines Logistics Services Company Limited for a total consideration of SR 8.00 million. The entire purchase price has been allocated to property, plant and equipment. The newly acquired subsidiary was dormant and therefore did not have any impact on the results for the year 2017.

**BAWAN COMPANY AND SUBSIDIARIES**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**36. EVENTS SUBSEQUENT TO THE REPORTING DATE**

Subsequent to reporting date, the following event occurred:

Effective January 1, 2019, the Group acquired 100% of the issued share capital of Arnon Plastic Industries Company Limited (“Arnon”) for a total consideration of SR 191.00 million, thereby obtaining control of Arnon. The identifiable assets acquired and liabilities assumed of Arnon amounted to SR 562.69 million and SR 417.15 million respectively in accordance with the last available unaudited financial statements for the year ended December 31, 2018. Initial accounting for the acquisition of Arnon is incomplete at the time the financial statements were authorized for issue. Arnon is engaged in production of flexible packaging and insulation products serving building material and food packaging industries. Arnon was acquired for growth of Group’s operations. The Company has filed an application to General Authority for Competition (“GAC”) to obtain non-objection from GAC on acquisition of Arnon as required by the Competition Law and the application was under process at the time these consolidated financial statements were authorized for issue.

No other events have occurred subsequent to the reporting date and before the issuance of these consolidated financial statements which require adjustment to, or disclosure, in these consolidated financial statements.

**37. DIVIDENDS**

Dividends of SR 0.40 per share (December 31, 2017: SR 0.65 per share) totaling SR 24.00 million (December 31, 2017: SR 39.00 million) were declared during the year. Dividends paid during the year to ordinary shareholders amounted to SR 23.97 million (December 31, 2017: SR 38.95 million).

**38. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS**

These consolidated financial statements were approved on March 18, 2019G.

---