SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2019
AND INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of Saudia Dairy & Foodstuff Company (SADAFCO)

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Saudia Dairy & Foodstuff Company (SADAFCO) (the "Company") and its subsidiaries (together the "Group") as at March 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss for the year ended March 31, 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of financial position as at March 31, 2019;
- the consolidated statement of changes in equity for the year ended March 31, 2019;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Key Audit Matters	• Accounting for the acquisition of Mlekoma Group • Carrying value of Mlekoma Group goodwill at the year end

Our audit approach (continued)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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.

Key audit matter	How our audit addressed the Key audit matter

Accounting for the acquisition of Mlekoma Group
SADAFCO through its wholly-owned subsidiary, SADAFCO Poland, acquired a total stake of 76% in Mlekoma group ("Mlekoma") on July 2, 2018. SADAFCO completed the purchase price allocation ("PPA") with the assistance of external experts.
 	
The accounting for acquisitions is governed by IFRS 3 'Business Combination' whose requirements can be complex and which requires management to exercise significant judgement in determining certain estimates. The most significant judgement is the determination of PPA which encompasses:
 	
• Identifying the assets (both tangible and intangible) and liabilities acquired and determining their fair values;
• Determination of goodwill to be recognized on acquisition; and
• Determining the value of the consideration transferred.
 	
As part of PPA, values were attributed to certain intangible assets amounting to Saudi Riyals 11.9 million. The fair valuation of these intangibles was determined using financial models which contain some significant assumptions, including discount rate, business growth rates, expected sales revenues and net profit margin as per an agreed business plan. The remaining unallocated purchase price was accounted for as goodwill, which amounted to Saudi Riyals 18.7 million.
	We performed the following procedures:
	
	• Reviewed the sale and purchase agreement ("SPA") entered into for the acquisition of Mlekoma and tested the following in accordance with the terms and conditions of SPA:
	  ○ Purchase consideration of Saudi Riyals 84.1 million;
	  ○ Cash payment to the shareholders of Mlekoma of Saudi Riyals 77.3 million; and
	  ○ Contingent consideration of Saudi Riyals 6.8 million, included in the purchase consideration.
	• Obtained and reviewed the PPA and tangible asset valuation reports prepared by management's expert.
	
	• Involved our internal valuation experts in assessing the PPA and identification of assets and liabilities and their respective fair values.
	
	• Our valuation experts assessed management's calculation of the relevant discount rates used in the allocation process and whether they were consistent with observable market data.
	
	• Our valuation experts assisted us in the valuation of the non-controlling interest put option liability and the significant assumptions of EBITDA multiple, revenue and margin growth rates.

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Independent auditor's report to the shareholders of Saudia Dairy & Foodstuff Company (SADAFCO) (continued)

Our audit approach (continued)

Key audit matter	How our audit addressed the Key audit matter
Accounting for the acquisition of Mlekoma Group (continued) In accordance with the sale purchase agreement ("SPA"), signed on the acquisition of Mlekoma, which included clauses whereby the non-controlling interest equity holders will put their remaining shareholding to the Group for acquisition at the expiry date of the option. Accordingly, a non-controlling interest put option liability of Saudi Riyals 23.5 million was recognized on the date of acquisition. The valuation of this option was determined after considering certain significant assumptions including enterprise multiple applied to EBITDA, revenue and margin growth. Due to the significance of the acquisition transaction, valuation of the non-controlling interest put option liability, the complexity generally of accounting for business combinations and the significant management assumptions in the valuation of intangibles identified, we consider this to be a key audit matter. *Refer to Notes 4, 8, 14 and 15 for estimates, judgements and assumptions made in applying accounting policies and for the related disclosures.*	• We tested certain key inputs used in the valuation models, such as growth percentage, expected revenue and net profit margins by reference to the historical operating and financial performance of Mlekoma. • We assessed the competence, objectivity, and capabilities of the experts engaged by management for the PPA and valuation of property plant and equipment. • Assessed the adequacy and appropriateness of the disclosures in Notes 4, 8, 14 and 15 to the consolidated financial statements.

Independent auditor's report to the shareholders of Saudia Dairy & Foodstuff Company (SADAFCO) (continued)

Our audit approach (continued)

Key audit matter	How our audit addressed the Key audit matter
Carrying value of Mlekoma Group goodwill at the year end As at March 31, 2019, the Group had goodwill amounting to Saudi Riyal 18.7, which arose on the acquisition of a majority shareholding in Mlekoma during the year. In accordance with accounting standard IAS 36, "Impairment of assets", an entity is required to test goodwill acquired in a business combination for impairment at least annually irrespective of whether there is any indication of impairment. Goodwill is monitored by management at the level of cash-generating units ("CGUs"), which are the primary operating elements of the business concerned. Management carried out an impairment exercise in respect of goodwill allocated to Mlekoma Group by determining a recoverable amount based on value-in-use discounted cash flow model, which utilized the most recent three-year business plan prepared by SADAFCO's management. The outcome of this exercise did not result in any impairment loss to be recognized. We considered impairment testing of goodwill performed by management to be a key audit matter since the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgment on the part of management. The critical judgmental elements of management's assessment were: (a) assumptions concerning the expected economic conditions, especially growth in the markets in which Mlekoma primarily operates; and (b) discount rate used in the value-in-use cash flow model. *Refer to Notes 4, 8, and 14 for estimates, judgements and assumptions made in applying accounting policies and for the related disclosures.*	We assessed management's impairment assessment of goodwill by performing the following procedures: • Assessed the methodology used by management to determine the recoverable value based on the value-in-use and compared it to that required by IAS 36. We also tested the arithmetical accuracy and logical integrity of the underlying calculations in the model. • Tested the accuracy and relevance of the input data by reference to supporting evidence, such as approved business plan and considered the reasonableness of three-year business plan by comparison to the Group's historical results and performance against budgets. • Engaged our valuation experts to assist in the review of the methodology of the value-in-use calculations and use of certain assumptions including discount rates and long-term growth rates. • Performed sensitivity analyses over key assumptions, principally sales growth rate, terminal value multiple and discount rates, in order to assess the potential impact of a range of possible outcomes. We also reviewed the adequacy of the disclosures included in Notes 4, 8 and 14 to the accompanying consolidated financial statements in relation to testing goodwill for possible impairment.

Independent auditor's report to the shareholders of Saudia Dairy & Foodstuff Company (SADAFCO) (continued)

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Group, (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, 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 has no realistic alternative but to do so.

The Group's audit committee is 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 International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent auditor's report to the shareholders of Saudia Dairy & Foodstuff Company (SADAFCO) (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current 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.

PricewaterhouseCoopers

Mufaddal A. Ali
License Number 447

April 25, 2019

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PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
Lic No. 323/11/25/1
C.R. 4030289002

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Consolidated statement of profit or loss
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended March 31, 2019	2018
Revenue – net	6	1,812,980	1,692,683
Cost of revenue	9	(1,232,682)	(1,059,002)
Gross profit		580,298	633,681
Selling and distribution expenses	10	(266,088)	(274,387)
General and administrative expenses	11	(92,228)	(83,884)
Other operating income		1,159	1,459
Impairment loss on financial assets		(1,502)	(2,825)
Operating profit		221,639	274,044
Finance income		11,711	6,755
Profit before zakat		233,350	280,799
Zakat	22	(17,240)	(20,577)
Profit for the year		216,110	260,222
Profit is attributable to:			
Owners of SADAFCO		218,387	260,877
Non-controlling interests		(2,277)	(655)
		216,110	260,222
Earnings per share:			
Basic and diluted earnings per share attributable (Saudi Riyals) to owners of SADAFCO	12	6.73	8.03

The notes from 1 to 31 form part of these consolidated financial statements.

Mussad Abdullah Al Nassar	Waltherus Cornelis Petrus Matthijs	Ian David Gowlett
Member Board of Directors	Chief Executive Officer	Chief Financial Officer

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended March 31, 2019	2018
Profit for the year		216,110	260,222
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		976	(414)
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	26	3,207	(5,457)
Other comprehensive income/(loss) for the year		4,183	(5,871)
Total comprehensive income for the year		220,293	254,351
Total comprehensive income for the year is attributable to:			
Owners of SADAFCO		222,384	255,050
Non-controlling interests		(2,091)	(699)
		220,293	254,351

The notes from 1 to 31 form part of these consolidated financial statements.

Mussad Abdullah Al Nassar	Waltherus Cornelis Petrus Matthijs	Ian David Gowlett
Member Board of Directors	Chief Executive Officer	Chief Financial Officer

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Consolidated statement of financial position
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	As at March 31, 2019	2018
Assets			
Non-current assets			
Property, plant and equipment	13	787,021	663,087
Intangible assets	14	28,713	-
Other non-current assets		4,904	243
		820,638	663,330
Current assets			
Inventories	16	277,417	347,901
Trade and other receivables	17	192,792	156,809
Deposits, prepayments and other assets	18	42,840	36,038
Cash and cash equivalents	19	582,055	559,099
		1,095,104	1,099,847
Total assets		1,915,742	1,763,177
Liabilities			
Non-current liabilities			
Employee benefit obligations	26	109,576	112,672
Non-controlling interest put option	15	24,088	-
Non-current portion of contingent consideration payable	8	3,845	-
		137,509	112,672
Current liabilities			
Trade and other payables	23	198,086	144,562
Accruals and other liabilities	24	204,032	163,805
Due to related parties	25	2,067	243
Zakat payable	22	16,189	20,523
		420,374	329,133
Total liabilities		557,883	441,805
Equity			
Issued share and paid up capital	20	325,000	325,000
Statutory reserve	20	162,500	162,500
Other reserves	20	229,762	207,923
Treasury shares	31	(51,559)	-
Foreign currency translation reserve		(525)	(1,315)
Retained earnings		673,267	627,042
Equity attributable to owners of SADAFCO		1,338,445	1,321,150
Non-controlling interests		19,414	222
Total equity		1,357,859	1,321,372
Total equity and liabilities		1,915,742	1,763,177

The notes from 1 to 31 form part of these consolidated financial statements.

Mussad Abdullah Al Nassar Member Board of Directors	Waltherus Cornelis Petrus Matthijs Chief Executive Officer	Ian David Gowlett Chief Financial Officer

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Consolidated statement of changes in equity
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Attributable to owners of SADAFCO								
	Issued share and paid up capital	**Statutory reserve**	**Other reserves**	**Treasury Shares**	**Foreign currency translation reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at April 1, 2017	325,000	162,500	181,835		(945)	592,710	1,261,100	1,569	1,262,669
Profit for the year	-	-	-		-	260,877	260,877	(655)	260,222
Other comprehensive loss	-	-	-		(370)	(5,457)	(5,827)	(44)	(5,871)
Total comprehensive income for the year	-	-	-		(370)	255,420	255,050	(699)	254,351
Dividend declared (Note 30)	-	-	-		-	(195,000)	(195,000)	(648)	(195,648)
Transfer to other reserves (Note 20)	-	-	26,088		-	(26,088)	-	-	-
Balance at March 31, 2018	325,000	162,500	207,923		(1,315)	627,042	1,321,150	222	1,321,372
Profit for the year	-	-	-		-	218,387	218,387	(2,277)	216,110
Other comprehensive income	-	-	-		790	3,207	3,997	186	4,183
Total comprehensive income for the year					790	221,594	222,384	(2,091)	220,293
Treasury shares acquired (Note 31)				(51,559)			(51,559)		(51,559)
Non-controlling interest on acquisition of subsidiary (Note 15)	-	-	-		-	-	-	21,283	21,283
Dividend declared (Note 30)	-	-	-		-	(130,000)	(130,000)	-	(130,000)
Put option reserve	-	-	-		-	(23,530)	(23,530)	-	(23,530)
Transfer to other reserves (Note 20)	-	-	21,839		-	(21,839)	-	-	-
Balance at March 31, 2019	325,000	162,500	229,762	(51,559)	(525)	673,267	1,338,445	19,414	1,357,859

The notes from 1 to 31 form part of these consolidated financial statements.

Mussad Abdullah Al Nassar
Member Board of Directors

Waltherus Cornelis Petrus Matthijs
Chief Executive Officer

Ian David Gowlett
Chief Financial Officer

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(A Saudi Joint Stock Company)
Consolidated statement of cash flows
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended March 31, 2019	2018
Cash flow from operating activities			
Profit before zakat		233,350	280,799
Adjustments for:			
Depreciation on property, plant and equipment	13	68,391	65,403
Amortization of intangible asset	14	1,999	-
Loss / (gain) on disposal of property, plant and equipment		271	(369)
Provision for slow moving and obsolete inventories	16	481	3,126
Impairment loss on financial assets	17	1,502	2,825
Finance costs on non-controlling interest put option		558	-
Finance costs on contingent consideration payable		89	-
Provision for employee benefit obligations	26	15,574	14,230
		322,215	366,014
Working capital			
Inventories		81,649	(29,598)
Trade and other receivables		(14,687)	2,164
Deposits, prepayments and other assets		(4,057)	(19,398)
Trade and other payables		39,282	45,182
Accruals and other liabilities		32,857	13,446
Due to related parties		1,824	(865)
Cash flow from operating activities		459,083	376,945
Employee benefit obligations paid	26	(15,463)	(14,850)
Zakat paid	22	(21,574)	(20,731)
Net cash inflow from operating activities		422,046	341,364
Cash flow from investing activities			
Purchase of property, plant and equipment	13	(146,063)	(130,604)
Sale proceeds from disposal of property, plant and equipment	13	904	487
Acquisition of non-current assets		(156)	
Payment for acquisition of a subsidiary, net of cash acquired		(73,192)	-
Net cash outflow from investing activities		(218,507)	(130,117)
Cash flow from financing activities			
Dividend paid to owners of SADAFCO	30	(130,000)	(195,000)
Purchase of treasury shares	31	(51,559)	-
Dividend paid to non-controlling interests in subsidiaries		-	(648)
Cash outflow from financing activities		(181,559)	(195,648)
Net change in cash and cash equivalents		21,980	15,599
Effects of exchange rate fluctuations on cash and cash equivalents		976	(414)
Cash and cash equivalents at the beginning of year		559,099	543,914
Cash and cash equivalents at the end of year		582,055	559,099

The notes from 1 to 31 form part of these consolidated financial statements.

Mussad Abdullah Al Nassar Member Board of Directors	Waltherus Cornelis Petrus Matthijs Chief Executive Officer	Ian David Gowlett Chief Financial Officer

1 General Information

Saudia Dairy & Foodstuff Company (the "Company" or "SADAFCO", together with its subsidiaries referred to as the "Group") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030009917 issued in Jeddah dated Rabi Al-Akhar 21,1396H (April 21,1976).

The Company and its subsidiaries are primarily engaged in the production and distribution of dairy products, beverages and various foodstuff in the Kingdom of Saudi Arabia, Poland and certain other Gulf and Arab countries. Information on the Group's structure is provided in Note 5 of these consolidated financial statements.

These consolidated financial statements were authorized for issue by the Board of Directors on April 25, 2019.

2 Basis of preparation

2.1 Statement of compliance

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

2.2 Preparation of the financial statements

These consolidated financial statements have been prepared on a historical cost basis except for the following:

- Certain non-current assets which are measured at fair value;
- Non-controlling interest put option which is recognised at the present value of redemption amount; and
- The defined benefit obligation which is recognised at the present value of future obligations using the Projected Unit Credit Method.

2.3 New and amended standards adopted by the Group

The Group has adopted, as appropriate, the following new and amended standards, effective April 1, 2018.

(a) IFRS 15 - Revenue from contracts with customers

The Group has adopted IFRS 15 using the modified retrospective method with the effect of applying this standard recognized at the date of initial application (i.e. April 1, 2018). Accordingly, information stated for 2017 has not been restated (i.e. it is presented, as previously reported, under IAS 18). The application of IFRS 15 was not material and did not require any adjustments to the retained earnings as at April 1, 2018. The accounting policies relating to revenue from contracts with customers are disclosed in Note 3.

(b) IFRS 9 - Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has adopted IFRS 9 with the effect of initially applying this standard recognized at the date of initial application (i.e. April 1, 2018). The Group has taken an exemption not to restate the comparative information for prior periods with respect to the classification and measurement (including impairment) requirements. The adoption of IFRS 9 resulted in certain change in classification of financial assets, however, it did not have any significant impact on the measurement and recognition of the financial instruments.

(All amounts in Saudi Riyals thousands unless otherwise stated)

2 Basis of preparation (continued)

2.3 New and amended standards adopted by the Group (continued)

The following table shows changes in classification and measurement in accordance with the original IAS 39 and the new IFRS 9 for the Group's financial assets and financial liabilities as of April 1, 2018:

	Original classification Under IAS 39	New Classification Under IFRS 9	Original Measurement Under IAS 39	New Measurement Under IFRS 9	Original carrying amount Under IAS 39	New carrying amount Under IFRS 9
Financial assets						
Trade and other receivables - net	Loans and receivables	Financial assets at amortized cost	Amortized cost	Amortized cost	146,669	146,669
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	Amortized cost	Amortized cost	559,099	559,099
Financial liabilities						
Trade and other payables	Other financial liabilities at amortized cost	Financial liabilities at amortized cost	Amortized cost	Amortized cost	144,562	144,562
Accruals and other liabilities	Other financial liabilities at amortized cost	Financial liabilities at amortized cost	Amortized cost	Amortized cost	163,805	163,805
Due to related parties	Other financial liabilities at amortized cost	Financial liabilities at amortized cost	Amortized cost	Amortized cost	243	243
Non-controlling interest put option	Other financial liabilities at amortized cost	Financial liabilities at amortized cost	Amortized cost	Amortized cost	-	-
Contingent consideration payable	Other financial liabilities at amortized cost	Financial liabilities at amortized cost	Amortized cost	Amortized cost	-	-

Impact of the new impairment model

IFRS 9 replaces the 'incurred loss' model with a forward-looking 'expected credit loss' (ECL) model. Cash is placed with banks with sound credit ratings. Cash at bank, net advances and other receivables are considered to have low credit risk therefore 12 months expected loss model was used for impairment assessment. Based on management's impairment assessment the provision required in respect of these balances for all the period presented is not material.

Impairment losses related to trade receivables are presented separately in the consolidated statement of profit or loss. As a result, the Group reclassified impairment losses amounting to Saudi Riyals 2.82 million, recognised under IAS 39, from 'Selling and Distribution Expense' to impairment loss on financial assets in the consolidated statement of profit or loss for the year ended March 31, 2018. The application of IFRS 9 impairment requirements as at April 1, 2018 results in no additional impairment allowance.

The accounting policies relating to classification and measurement of financial assets and financial liabilities, impairment of financial assets are disclosed in Note 3.13.

2.4 Standards and interpretations issued but not yet effective and applied by the Group

The following are the new standards and interpretations, which are either not yet effective or early adopted up to the date of issuance of the Group's consolidated financial statements or applicable in preparing the consolidated financial statements. The Group's assessment of these new standards and interpretations is set out below:

2 Basis of preparation (continued)

2.4 Standards and interpretations issued but not yet effective and applied by the Group (continued)

IFRS 16 – Leases

IFRS 16 replaces IAS 17 'Leases', IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC-15 'Operating Leases – Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group will recognise new assets and liabilities for its operating leases of various types of contracts including warehouse and depot facilities, accommodation / office rental premises, etc. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities in relation to its right-to-use assets. Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Group is required to adopt IFRS 16 Leases from April 1, 2019. The Group has performed initial assessment during the year and assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on April 1, 2019 may change at the time of final assessment.

At the end of 2018, the following main policy choices have been made and form the basis for the Group's IFRS 16 implementation and application work:

IFRS 16 transition choices:

- IFRS 16 will be implemented with the cumulative effect of initially recognizing the standard as an adjustment to the opening consolidated retained earnings at the date of initial application, and without restatement of prior periods' reported figures (the "modified retrospective method").
- Contracts already classified either as leases under IAS 17 or as non-lease service arrangements will maintain their respective classifications upon the implementation of IFRS 16.
- Leases with a less than 12 months remaining lease term at year-end March 31, 2019 will not be reflected as leases under IFRS 16.
- RoU assets will for most contracts initially be reflected at an amount equal to the corresponding lease liability.
- Short term leases (less than 12 months) and leases of low value assets will not be reflected in the consolidated statement of financial position, but will be expensed as incurred.
- Non-lease components within lease contracts will be accounted for separately for all underlying classes of assets, and reflected in the relevant expense category as incurred.

There are no other relevant standards and interpretations issued but not yet effective that would be expected to have a material impact on the Group's consolidated financial statements.

3 Significant accounting policies

The accounting policies set out below have been applied consistently in the preparation of these consolidated financial statements to all periods presented, unless otherwise indicated.

3.1 Principles of consolidation and equity accounting

Subsidiaries

Subsidiaries are all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. They are deconsolidated from the date the control ceases.

3 Significant accounting policies (continued)

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group losses control of the subsidiary. Assets, liabilities income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated financial statements from the date the Group obtains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the Owners of SADAFCO and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. 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 intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill) if any, liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the SADAFCO. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of SADAFCO. When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

3 Significant accounting policies (continued)

3.2 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Please refer Note 27 for more details

3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors (BOD) and CEO together, (chief operating decision maker, CODM). The CODM assesses the financial performance and position of the Group, and makes strategic decisions.

An operating segment is group of assets and operations:

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

3.4 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Saudi Riyals, which is SADAFCO's functional and presentation currency.

3 Significant accounting policies (continued)

3.4 Foreign currencies (continued)

Transaction and balances

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary assets measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognized in statement of comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of end of reporting period;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates, and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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.

3.5 Revenue recognition

The Group recognizes revenue to depict the transfer of promised goods to customers. Revenue is measured based on the consideration specified in a contract with a customer net of returns, trade discounts, volume rebates and value added taxes.

Revenue is recognized when a customer obtains control of the goods or services (i.e. when it has the ability to direct the use of and obtain benefits from the goods). Customers obtain control when goods are delivered to and have been accepted by them as per the applicable delivery terms and, accordingly, revenue is recognised at that point-in-time. Invoices are usually payable within credit period agreed with the customer which may vary from one to another. For contracts that permit the customer to return an item, revenue is recognised to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data, incase such returns are material.

The goods are often sold with retrospective volume discounts based on aggregate sales over a 12-months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in accrued and other liabilities) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

3 Significant accounting policies (continued)

3.5 Revenue recognition (continued)

No element of financing component is deemed present as the sales are made either on cash or on credit terms consistent with market practice. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

3.6 Selling, distribution, general and administrative expenses

Selling, distribution and general and administrative expenses include direct and indirect costs not specifically part of cost of revenue. Costs directly and indirectly related to marketing and distribution activities are classified as selling and distribution expenses. All other costs are classified under general and administrative expenses. Allocations between selling, distribution and general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

3.7 Dividends distribution

Dividend distribution to SADAFCO's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by SADAFCO's shareholders.

3.8 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss. The group recognises contingent consideration which results from business combinations at fair value at acquisition date. Management exercises judgement in the determination of the discount rate and the probability of performance targets being met.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

(All amounts in Saudi Riyals thousands unless otherwise stated)

3 Significant accounting policies (continued)

3.9 Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major overhauls is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in consolidated statement of profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met and the amounts are expected to be material.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the consolidated statement of profit or loss when incurred.

Depreciation is charged to the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of property, plant and equipment as follows;

	%
• Buildings	2.5 - 10
• Machinery and equipment	6.7 - 12.5
• Vehicles and trailers	15 - 25
• Furniture, fixtures and office equipment	10 - 25

An item of property, plant and equipment and any significant part initially recognised is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognized. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial period end and adjusted prospectively, if appropriate.

3.10 Intangible assets

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments

Brands, customer and supplier relationships

Separately acquired intangibles are shown at historical cost. Brands, customer and supplier relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

3 Significant accounting policies (continued)

Amortisation is charged to the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives as follows:

	Number of years
• Brand	4-5
• Customer relationships	4-5
• Supplier relationship	4-5

3.11 Zakat and income tax on foreign entities

In accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"), the Group is subject to zakat attributable to the Saudi shareholders. Provisions for zakat are charged to the consolidated statement of profit or loss. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. For pending zakat assessment years, provisions are assessed at each reporting period depending on the status of zakat assessment.

Income tax on foreign entities is provided in accordance with the relevant income tax regulations of the entities of incorporation. The income tax expense or credit for the period is the tax payable on the current periods taxable income based on the applicable income tax rate for each jurisdiction.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. The income tax charge relating to subsidiaries is recorded in statement of profit or loss, if material. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Zakat and income tax expense are recognized in each period based on the best estimate of the annual zakat and income tax expected for the full financial year.

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

3.12 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Lease in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to consolidated statement of profit or loss on a straight-line basis over the period of the lease.

3.13 Financial instruments

IFRS 9 largely retains the previous requirements under IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets classified as held to maturity, loans and receivables and available for sale.

3 Significant accounting policies (continued)

(i) Financial assets

Classification

On initial recognition, a financial asset is classified in the following categories:

- subsequently measured at amortised cost;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – debt instrument;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – equity instrument; or
- subsequently measured at fair value through profit and loss ("FVPL").

The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Debt instruments

A 'debt instrument' is classified as subsequently measured at amortised cost if both the following conditions are met:

(a) The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and

(b) Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

If the above two conditions are not met, the 'debt instrument' is classified as subsequently measured at fair value, either at FVPL or FVOCI, based on the business model.

(a) Measurement

Initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Subsequent measurement

Debt instruments subsequently measured at amortised cost

This category is the most relevant to the Group. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss. This category generally applies to trade and other receivables, bank balances, security deposits, advances to employees.

Debt instruments subsequently measured at fair value

For this category, if applicable, such financial assets are subsequently measured at fair value at the end of each reporting period, with all changes recognized either in profit or loss for equity instruments classified as FVPL, or within other comprehensive income for equity instruments classified as FVOCI.

3 Significant accounting policies (continued)

(b) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or,
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(c) Impairment

The Group applies the expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets that are debt instruments, and are measured at amortised cost (e.g. deposits, trade receivables and bank balances). The Group follows 'simplified approach' for recognition of impairment loss allowance on trade receivables, if they do not contain a significant financing component.

The application of a simplified approach does not require the Group to track changes in credit risk. Rather, it recognises impairment loss allowance based on lifetime ECL at each reporting date, right from its initial recognition. Lifetime ECL is the expected credit loss resulting from all possible default events over the expected life of a financial instrument.

The Group uses a provision matrix in the calculation of the ECL on financial assets to estimate the lifetime expected credit losses, applying certain provision rates to respective contractual past due aging buckets. The provision matrix was developed considering probability of default and loss given default which were derived from historical data of the Group and are adjusted to reflect the expected future outcome.

ECL impairment loss allowance (or reversal) recognized during the period is recognized as income/ expense in profit or loss.

(ii) Financial liabilities

Financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount is presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Non-derivative financial liabilities of the Group comprises trade and other payables.

(iii) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3 Significant accounting policies (continued)

3.14 Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

3.15 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and other short term highly liquid investments, with original maturities of three months or less from the purchase date and / or readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank borrowing (if any) as they are considered an integral part of the Group's cash management.

3.16 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3.17 Inventories

Inventories are valued at the lower of cost and net realizable value. Costs of finished goods include material cost, direct labour and appropriate manufacturing overhead. The cost of inventories includes expenditure incurred in acquiring and bringing them to their existing location and condition. Costs are assigned to individual items of inventory on the basis of first-in-first out. Costs of purchased inventory are determined after deducting rebates and discounts.

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

3.18 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid in accordance with agreed terms. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

3.19 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

3 Significant accounting policies (continued)

3.20 Non-controlling interest put options

Written put options in respect of which the Group does not have an unconditional right to avoid the delivery of cash, are recognised as financial liabilities. Under this method, the non-controlling interest is not derecognised when the financial liability in respect of the put option is recognised, as the non-controlling interest still has present access to the economic benefits associated with the underlying ownership interest. Non-controlling interest put options are initially recognised at the present value of redemption amount and reduction to controlling interest equity. All subsequent changes in liability is recognised in the condensed consolidated interim statement for profit or loss. The Group uses its judgement to select a variety of methods, and assumptions made are based on market and Group specific conditions existing at each reporting period.

3.21 Employee benefit obligations

The Group is operating an unfunded post-employment defined benefit plans. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Actuarial gains and losses are recognized in full in the period in which they occur in the consolidated statement of comprehensive income. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to the consolidated statement of profit or loss in subsequent periods.

Past service costs are recognized in the consolidated statement of profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date on which the Group recognizes related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under 'cost of revenue', 'general and administration expenses' and 'selling and distribution expenses' in the consolidated statement of profit or loss (by function):

- Service costs comprises current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
- The defined benefit asset or liability comprises the present value of the defined benefit obligation, past service costs and less the fair value of plan assets out of which the obligations are to be settled. However, currently the plan is unfunded and has no assets.

3.22 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3.23 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost. Treasury shares are presented as a deduction from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the SADAFCO's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised as share premium or discount which is presented in equity.

3.24 Other reserves

In accordance with Company's by-laws, the shareholders decided to create a voluntary reserve by the transfer of 10% of the net income attributable to equity shareholders of SADAFCO to the reserve. The utilization of this reserve is at the discretion of the shareholders. In the current year, transfer has been made to the voluntary reserve.

3.25 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Group.
- by the weighted average number of ordinary shares outstanding during the financial year.

3 Significant accounting policies (continued)

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

4 Critical accounting estimates and judgments

The preparation of the Group's consolidated financial statements, requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent assets and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Estimates and judgements are continuously evaluated. They are based on historical experience and other factors including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Information about estimates and judgments made in applying accounting policies that could potentially have an effect on the amounts recognised in the consolidated financial statements, are discussed below:

(i) Goodwill - Annual impairment testing of goodwill

The Group's management tests whether goodwill has suffered any impairment at least on an annual basis. This requires an estimation of recoverable amounts of the cash-generating units to which the goodwill is allocated. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions applied in the determination of the value-in-use are disclosed and further explained in Note 14 to the consolidated financial statements.

The carrying amount of goodwill as at March 31, 2019 was Saudi Riyals 18.7 million.

(ii) Business combination – Fair valuation of net assets acquired and purchase price allocation

The recognition of business combinations requires determining the assets and liabilities acquired and the allocations of excess of the purchase price of the acquisition over the net book value of assets acquired. The Group makes judgements and estimates in relation to determination of assets and liabilities acquired and the fair value allocation of the purchase price to the identified assets and liabilities. The unallocated portion is recognised as goodwill.

(iii) Measurement of post-employment defined benefits

The cost of post-employment defined benefits are the present value of the related obligation, as determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, withdrawal before normal retirement age, mortality rates, etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. With respect to determining the appropriate discount rate, yield and duration of high quality bonds obligation, as designated by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. Further details are explained in Note 26 of the consolidated financial statements.

(All amounts in Saudi Riyals thousands unless otherwise stated)

4 Critical accounting estimates and judgments (continued)

(iv) Trade receivables – Allowance for impairment of trade receivables

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. For significant individual amounts, assessment is made at individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering the past recovery rates. Further details are explained in Note 28 of the consolidated financial statements.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Further details are explained in Note 28 of the consolidated financial statements. If the present value of estimated future cash flows (increase) / decrease by 10% from Group management's estimates, the Group's allowance for impairment will decrease / (increase) by Saudi Riyals 2.17 million.

(v) Non-controlling interest put options

The fair value of non-controlling interest put options are recognised at the present value of redemption amount based on discount future cash flow analysis. The Group uses its judgement to select a variety of methods, and assumptions made are based on market and Group specific conditions existing at each reporting period. Further details are explained in Note 15 of the consolidated financial statements.

5 Group information

The consolidated financial statements of the Group includes:

Name	Relationship	Principal activities	Country of incorporation	% equity interest	
				March 31, 2019	March 31, 2018
SADAFCO Bahrain Company SPC	Subsidiary	Foodstuff and dairy products	Bahrain	100%	100%
SADAFCO Jordan Foodstuff Company LLC	Subsidiary	Foodstuff and dairy products	Jordan	100%	100%
SADAFCO Qatar Company	Subsidiary	Foodstuff and dairy products	Qatar	75%	75%
SADAFCO Kuwait Foodstuff Co. W.L.L (*)	Subsidiary	Foodstuff and dairy products	Kuwait	49%	49%
SADAFCO Poland sp. Z.o.o. (**) ("SADAFCO Poland")	Subsidiary	Holding company	Poland	100%	-
Mlekoma sp. Z.o.o. (**)	Subsidiary	Dairy products	Poland	76%	-
Foodexo sp. Z.o.o, (**)	Subsidiary	Dairy products	Poland	76%	-
Mlekoma Dairy Z.o.o (**)	Associate	Dairy products	Poland	37%	-

(*) Remaining equity interest is beneficially held through parties nominated by the Company.

(**) On July 02, 2018, the Group acquired 76% controlling stake in Mlekoma sp. Z.o.o. and its subsidiary Foodexo sp. Z.o.o, and an associate Mlekoma Dairy Z.o.o (collectively referred to as "Mlekoma group") through a wholly owned subsidiary, SADAFCO Poland, incorporated in Poland. Please refer Note 8 for more details.

(All amounts in Saudi Riyals thousands unless otherwise stated)

6 Segment information

6.1 Operating Segment

Following the management approach in regard to IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Board of Directors and CEO (Chief Operating Decision Maker), who is responsible for allocating the reportable segments and assessing their performance. The drinks segment represents milk and juice products, while non–drinks represent ice creams, tomato paste, cheese and snacks.

	Drinks	Non- drinks	Unallocated	Total
2019				
Segment profit or loss				
Segment revenue – net	**1,094,723**	**727,162**	**-**	**1,821,885**
Inter-segment revenue – net	**-**	**(8,925)**	**-**	**(8,925)**
Revenue from external customers	**1,094,723**	**718,237**	**-**	**1,812,960**
Profit before zakat	**166,850**	**66,450**	**-**	**233,350**
Depreciation	**48,853**	**19,538**	**-**	**68,391**
Segment assets				
Property, plant and equipment	**562,187**	**224,834**	**-**	**787,021**
Intangible assets	**-**	**28,713**	**-**	**28,713**
Current assets	**-**	**49,244**	**1,045,860**	**1,095,104**
Other non-current assets	**-**	**4,661**	**243**	**4,904**
	562,187	**307,452**	**1,046,103**	**1,915,742**
Segment liabilities				
Current liabilities	**-**	**29,495**	**390,879**	**420,374**
Non-controlling interest put option	**-**	**24,088**	**-**	**24,088**
Non-current portion of contingent consideration payable	**-**	**3,845**	**-**	**3,845**
Employee benefits obligations	**-**	**230**	**109,346**	**109,576**
	-	**57,658**	**500,225**	**557,883**

	Drinks	Non- drinks	Unallocated	Total
2018				
Segment profit or loss				
Segment revenue – net	1,129,505	563,178	-	1,692,683
Inter-segment revenue –net	-	-	-	-
Revenue from external customers	1,129,505	563,178	-	1,692,683
Profit before zakat	213,409	67,390	-	280,799
Depreciation	49,529	15,874	-	65,403
Segment assets				
Property, plant and equipment	502,145	160,942	-	663,087
Current assets	-	-	1,099,847	1,099,847
Other non-current assets	-	-	243	243
	502,145	160,942	1,100,090	1,763,177
Segment liabilities				
Current liabilities	-	-	329,133	329,133
Employee benefits obligations	-	-	112,672	112,672
	-	-	441,805	441,805

The management has categorized its geographical operations as follows:

	2019	2018
Geographic information		
Revenue from external customers		
Kingdom of Saudi Arabia	**1,566,909**	1,603,592
Poland	**146,199**	-
Gulf Cooperation Council (GCC countries)	**57,792**	61,506
Others	**42,060**	27,585
	1,812,960	1,692,683

(All amounts in Saudi Riyals thousands unless otherwise stated)

6 Segment information (continued)

	2019	2018
Non-current operating assets		
Kingdom of Saudi Arabia	**731,049**	653,635
Poland	**77,863**	-
Gulf Cooperation Council (GCC countries)	**9,711**	8,034
Others	**2,015**	1,661
	820,638	663,330

6.2 Reconciliation of profit

	2019	2018
Profit before zakat	**233,350**	280,799
Zakat	**(17,240)**	(20,577)
Profit after zakat	**216,110**	260,222

7 Capital management

At March 31, 2019 and March 31, 2018, the Group has no outstanding borrowing arrangements and, therefore, the gearing ratio is not presented.

For the purpose of the Group's capital management, capital includes issued share and paid up capital, statutory reserves, other reserves and foreign translation currency reserve. The primary objective of the Group's capital management is to maximize the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares. One of the ways the Group monitors capital is by using a gearing ratio, which is net debt divided by total capital plus net debt.

8 Business combination

SADAFCO through its wholly-owned subsidiary, SADAFCO Poland, acquired a total stake of 76% in Mlekoma group on July 2, 2018 through a series of agreements, collectively referred to as Share Purchase Agreement ("SPA"). The Group considers this transaction as a strategic opportunity to invest in vertical (upward) integration, being a source of the milk powder, one of the key raw materials.

These consolidated financial statements include the results of Mlekoma group from July 2, 2018, as the Group effectively obtained control of Mlekoma group from that date.

The Group recognises non-controlling interests in Mlekoma group at its proportionate share of the acquired net identifiable assets.

8 Business combination (continued)

The consideration paid, the fair values of the assets and liabilities recognised at the date of acquisition and the non-controlling interest's proportionate share in the recognised amounts of the acquiree's identifiable net assets are summarised as follows:

	Fair value Saudi Riyals '000'
Property, plant and equipment	47,437
Intangibles	11,992
Other non-current assets	3,418
Inventories	11,646
Trade receivables	22,798
Deposits, prepayments and other assets	2,745
Cash and cash equivalents	4,087
Trade and other payables	(14,242)
Accruals and other liabilities	(1,067)
Deferred tax liabilities	(3,044)
Income tax payable	(173)
Deferred tax on contingent consideration	1,087
Net Identifiable assets acquired	**86,684**
Less: non-controlling interests	(21,283)
Add: goodwill	18,720
Net assets acquired	**84,121**
Purchase consideration	
Cash paid	77,279
Contingent consideration	6,842
	84,121

The goodwill is attributable to sourcing of high quality raw material, experienced workforce and profitability of Mlekoma Group.

(i) Contingent consideration

Contingent consideration payable is estimated based on the terms of SPA, the management's knowledge of the business and how the current economic environment is likely to impact the business of Mlekoma Group. In the event that certain pre-determined sales and net margins targets are achieved by Mlekoma Group for the years 2018, 2019 and 2020, the Group may be required to pay the former owners an amount ranging from Saudi Riyals 2 million to Saudi Riyals 5 million for each year up to maximum undiscounted amount of Saudi Riyals 5 million for each year. There is no minimum guaranteed amount payable under terms of SPA.

As at acquisition date on July 2, 2018, the fair value of the contingent consideration of Saudi Riyals 6.8 million was estimated by calculating the present value of the future expected cash flows at pre-tax discount rate of 3.1%. The pre-determined sales and net margins targets were achieved for the year 2018. Except for the unwinding of the discount amounting to Saudi Riyals 0.09 million, there as has been no change in the remaining liability since there has been no changes in the probability of the outcome performance. As of March 31, 2019, the non-current portion of contingent consideration payable amounts to Saudi Riyals 3.8 million and the current portion of contingent consideration payable amounts to Saudi Riyals 3.0 million, which is included in other accrual under 'Accruals and other liabilities' (Note 24).

(All amounts in Saudi Riyals thousands unless otherwise stated)

8 Business combination (continued)

(ii) Acquired receivables

The fair value of acquired trade receivables is Saudi Riyals 22.8 million. The amount of gross contractual amount for trade receivables which is expected to be uncollectible is Saudi Riyals Nil as of the acquisition date.

(iii) Accounting policy choice for non-controlling interests

For the non-controlling interests in Mlekoma Group, the Group elected to recognise the non-controlling interests in at its proportionate share of the acquired net identifiable assets.

(iv) Revenue and profit contribution

The acquired business contributed revenues of Saudi Riyals 146.2 million and net loss of Saudi Riyals 7 million to the Group for the period from July 2, 2018 to March 31, 2019. If the acquisition had occurred on April 1, 2018, consolidated revenue and profit for the year ended March 31, 2019 would have been Saudi Riyals 192.2 million and Saudi Riyals 7.9 million, respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the Group and the subsidiary, and
- the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from April 1, 2018, together with the consequential tax effects.

(v) Purchase consideration – cash outflow

	2019
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	77,279
Less: balance acquired	
Cash in hand	-
Cash at bank	4,087
	4,087
Net cash outflow of cash – investing activities	73,192

Acquisition related costs

The incurred acquisition related costs amounted to Saudi Riyals 1.1 million (2018: Saudi Riyals 1.2 million) for legal fees and due diligence costs. These costs have been included in 'General and administrative expenses' in the consolidated statement of profit or loss and in operating cash flows in the consolidated statement of cash flows.

9 Cost of revenue

	Note	2019	2018
Material and employees cost		1,098,114	920,197
Depreciation	13	43,076	38,508
Transportation cost		35,342	43,644
Rent		15,650	17,638
Other overheads		40,480	39,015
		1,232,662	1,059,002

10 Selling and distribution expenses

	Note	2019	2018
Employee costs		**147,464**	136,964
Advertising and sales promotion		**41,074**	60,938
Depreciation	13	**23,447**	25,322
Repairs and maintenance costs		**6,501**	6,048
Rent		**5,882**	2,732
Insurance		**3,187**	3,302
Communication		**2,474**	2,536
Others		**36,059**	36,545
		266,088	274,387

11 General and administrative expenses

	Note	2019	2018
Employee costs		**58,112**	57,038
Directors' remuneration		**2,800**	2,800
Repairs and maintenance costs		**2,714**	2,672
Communication		**2,166**	2,048
Amortization	14	**1,999**	-
Depreciation	13	**1,868**	1,573
Insurance		**680**	522
Rent		**556**	347
Bank charges		**830**	888
Others		**20,503**	15,996
		92,228	83,884

12 Earnings per share

The basic and diluted earnings per share is computed for the year ended March 31 as follows:

	2019	2018
Profit attributable to owners of SADAFCO	**218,387**	260,877
Weighted average number of ordinary shares outstanding (in thousands)	**32,447**	32,500
Basic and diluted earnings per share	**6.73**	8.03

Weighted average number of shares are adjusted to reflect the effect of treasury shares held by the Company.

(All amounts in Saudi Riyals thousands unless otherwise stated)

13 Property, plant and equipment

	Land and buildings	Machinery and equipment	Vehicles and trailers	Furniture, fixtures and office equipment	Capital work-in-progress	Total
Cost						
April 1, 2017	360,947	849,449	204,892	79,154	67,262	1,561,704
Additions	1,755	3,088	3,661	1,146	120,954	130,604
Disposals	-	-	(943)	(3)	-	(946)
Transfers	15,266	6,303	16,382	1,946	(39,897)	-
March 31, 2018	377,968	858,840	223,992	82,243	148,319	1,691,362
Accumulated depreciation						
April 1, 2017	195,365	543,493	156,981	67,861	-	963,700
Charge for the year	12,921	31,111	18,368	3,003	-	65,403
Disposals	-	-	(826)	(2)	-	(828)
March 31, 2018	208,286	574,604	174,523	70,862	-	1,028,275
Net book value at March 31, 2018	**169,682**	**284,236**	**49,469**	**11,381**	**148,319**	**663,087**
Cost						
April 1, 2018	377,968	858,840	223,992	82,243	148,319	1,691,362
Acquired on Acquisition	32,912	35,337	2,074	4,638	555	75,516
Additions	1,007	3,753	13,463	1,151	126,689	146,063
Disposals	(540)	(5,794)	(15,969)	(38)	-	(22,341)
Transfers	5,559	63,671	8,637	8,873	(86,740)	-
March 31, 2019	416,906	955,807	232,197	96,867	188,823	1,890,600
Accumulated depreciation						
April 1, 2018	208,286	574,604	174,523	70,862	-	1,028,275
Acquired on Acquisition	3,614	20,757	1,030	2,678	-	28,079
Charge for the year	13,503	34,813	15,812	4,263	-	68,391
Disposals	(425)	(5,288)	(15,422)	(31)	-	(21,166)
March 31, 2019	224,978	624,886	175,943	77,772	-	1,103,579
Net book value at March 31, 2019	**191,928**	**330,921**	**56,254**	**19,095**	**188,823**	**787,021**

(a) Depreciation charge for the year ended March 31, has been allocated as follows:

	Note	2019	2018
Cost of revenue	9	**43,076**	38,508
Selling and distribution expenses	10	**23,447**	25,322
General and administrative expenses	11	**1,868**	1,573
		68,391	65,403

(b) The ownership interest of the Group in certain freehold land held in Madinah amounting to Saudi Riyals 1.5 million (2018: Saudi Riyals 1.5 million) is through a third party. The Company holds legal documents confirming its beneficial interest.

(c) The additions during the year amounting to Saudi Riyals 146.3 million (2018: Saudi Riyals 130.6 million), mainly represent completed Tabuk depot. Addition to capital work-in-progress includes under construction Jeddah central warehouse, plant and machinery in the factories, vehicles and freezers.

(All amounts in Saudi Riyals thousands unless otherwise stated)

14 Intangible assets

	Goodwill	Brand	Supplier relationships	Customer relationships	Total
Cost					
March 31, 2017 and March 31, 2018	-	-	-	-	-
Acquisition of a subsidiary (see Note 8)	18,720	8,656	2,324	1,012	**30,712**
March 31, 2019	18,720	8,656	2,324	1,012	**30,712**
Accumulated amortization					
March 31, 2017 and March 31, 2018	-	-	-	-	-
Charge for the year	-	1,442	388	169	**1,999**
March 31, 2019	-	1,442	388	169	**1,999**
Net book amounts					
March 31, 2019	**18,720**	**7,214**	**1,937**	**842**	**28,713**
March 31, 2018	-	-	-	-	-

Amortization has been allocated to 'General and administrative expenses'.

(a) Customer relationships, supplier relationships and brand

The customer relationships, supplier relationships and Brand were recognised as a part of a business combination (see Note 8 for details). They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line basis on the estimated lives of the respective intangibles.

The fair value of customer relationships were arrived at by using multi-period excess earning method which involves management to estimate expected future excess earnings stream attributable to the asset.

The fair value of the brand was arrived at by using royalty relief method which involves management to estimate implicit royalty payments that would be saved through owning the asset as compared it with licensing from third party.

(b) Goodwill

Goodwill is attributable to sourcing of high quality raw material, experienced workforce and profitability of the acquired business that cannot be assigned to any other determinable and separate intangible asset.

The Group tests whether goodwill has suffered any impairment on an annual basis. For the impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. For the year ended March 31, 2019, the recoverable amount of Mlekoma group which was considered as single cash generating unit was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in industry reports specific to the industry in which the CGU operates.

Goodwill is allocated to the Mlekoma group's operations as a whole and falls under "Non-drinks" in the operating segment.

The calculation in value in use is most sensitive to the assumptions on EBITDA margins, discount rate and terminal growth rate. Key assumptions underlying the projections are:

Key assumptions	**%**
Sales growth rate	11.4
Discount rate	10.5
Terminal value growth rate	3.0

Sensitivity to the changes in assumptions

With regard to the assessment of the value in use, management believes that no reasonably possible change in any of the key assumptions above would cause the carrying value of the CGU including goodwill to materially exceed its recoverable amount. The implications of changes to the key assumptions are discussed below.

(All amounts in Saudi Riyals thousands unless otherwise stated)

14 Intangible assets (continued)

(i) Sales growth rate

The sales growth in the forecast period has been estimated to be compound annual growth rate of 11.4%. If all other assumptions kept the same, a reduction of this growth rate by 0.3% would give a value in use equal to the current carrying amount.

(ii) Discount rate

The discount was an estimate of the weighted average cost of capital as of March 31, 2019 based on market rates adjusted to reflect management's estimate of the specific risks relating to segment and operations in Poland. If all other assumptions kept the same, an increase of this rate by 3.1% would give a value in use equal to the current carrying amount.

(iii) Terminal value growth rate

It is the weighted average growth rate used to extrapolate cash flows beyond the budget period. If all other assumptions kept the same, a reduction of this growth rate by 13% would give a value in use equal to the current carrying amount.

15 Non-controlling interest put option

As explained in Note 8, the Group entered into business acquisition of a subsidiary in Poland, Mlekoma Group, through SPA which included clauses whereby the non-controlling interest equity holders will put their remaining shareholding to the Group at the expiry date of the option i.e. fifth year of the completion date as per the terms of SPA. As per the terms of SPA, it is a binding irrevocable option to acquire from the non-controlling interest equity holders their remaining shareholding.

The put option available to the non-controlling interest equity holders is exercisable within period of 15 business days from the expiry date of the option. The redemption value is recognized higher of purchase price as per SPA or determined by applying earnings multiplier to audited EBITDA of financial year 2022 of Mlekoma group as reduced by net debt in accordance with the SPA. The Group has estimated a gross cash outflow of range of Saudi Riyals 27.3 million to Saudi Riyals 38.7 million at the exercise of option. A pre-tax discount rate of 3.1% and 10.5%, respectively has been used for redemptions values based on the two options. This is a level 3 fair valuation as per IFRS 13. Please refer Note 27 for fair valuation details.

16 Inventories

	2019	2018
Raw materials	**132,517**	227,982
Packing materials	**25,474**	27,664
Finished goods	**77,879**	80,630
Spare parts, supplies and other items	**14,052**	13,501
Goods-in-transit	**37,673**	7,821
	287,595	357,598
Less: Provision for slow moving and obsolete inventories (see below)	**(10,178)**	(9,697)
	277,417	347,901

Movement in the provision for slow moving and obsolete inventories is as follows:

	2019	2018
April 1	**9,697**	18,774
Charge for the year	**481**	3,126
Write-off (*)	**-**	(12,203)
March 31	**10,178**	9,697

(*) During 2018, certain spare parts were written off.

(All amounts in Saudi Riyals thousands unless otherwise stated)

17 Trade and other receivables

	2019	2018
Trade receivables	**202,298**	166,828
Less: Allowance for impairment of trade receivables (see below)	**(21,661)**	(20,159)
Net trade receivables	**180,637**	146,669
Net advances and other receivables	**12,155**	10,140
	192,792	156,809

As at March 31, 2019, trade receivables with an initial carrying value of Saudi Riyals 21.7 million (2018: Saudi Riyals 20.2 million) were impaired and fully provided for. See below for the movements in the allowance for impairment of trade receivables.

	2019	2018
April 1	**20,159**	17,334
Charge for the year	**1,502**	2,825
March 31	**21,661**	20,159

It is not the practice of the Group to obtain collateral over receivables and the vast majority of receivables are therefore, unsecured. However, unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. Refer Note 28 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables.

18 Deposits, prepayments and other assets

	2019	2018
Prepayments	**15,375**	14,650
Advances to suppliers	**24,085**	20,075
Security and other deposits	**3,380**	1,313
	42,840	36,038

19 Cash and cash equivalents

	2019	2018
Cash in hand	**13,487**	14,686
Balances with banks - current account	**40,558**	19,041
Murabaha short-term bank deposits	**528,010**	525,372
	582,055	559,099

The average rate on Murabaha short-term bank deposits is 2.53 % per annum for the year ended March 31, 2019 (March 31, 2018: 1.73% per annum). The cash is held in current accounts and Murabaha short-term bank deposits with banks having sound credit ratings and does not carry any mark-up. The fair value of cash and cash equivalent approximates the carrying value at each reporting period.

20 Capital and reserves

20.1 Issued and paid-up capital

	2019	2018
Ordinary share of Saudi Riyals 10 each (*)	**32,500**	32,500
Issued share and paid-up capital		
March 31	**325,000**	325,000

(*) During the year the Group has acquired treasury shares (Note 31).

(All amounts in Saudi Riyals thousands unless otherwise stated)

20 Capital and reserves (continued)

20.2 Statutory reserve

In accordance with the new Regulations for Companies in the Kingdom of Saudi Arabia, companies are required to transfer 10% of the net income for the year to a statutory reserve until such reserve equals 30% of its share capital. However, according to the Company's By-laws, the Company was required to transfer at least ten percent of net income for the year to a statutory reserve until such reserve equals 50% of paid-up capital which was consistent with previous Regulations for Companies. This having been achieved, consequently, the Company resolved to discontinue such transfers. This reserve currently is not available for distribution to the shareholders of the Group.

20.3 Other reserves

In the prior years, the shareholders decided to create a voluntary reserve by transfer of ten percent of the profit attributable to equity shareholders of SADAFCO to the reserve. The utilization of this reserve is at the discretion of the shareholders. In the current year an amount of Saudi Riyals 21.8 million was transferred to voluntary reserve (2018: Saudi Riyals 26.1 million).

21 Non-controlling interests

Summarized aggregate financial information of the SADAFCO Poland sp. Z.o.o. that has material non-controlling interests (Refer Note 1) is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Summarized balance sheet

March 31, 2019	
Current assets	51,125
Current liabilities	29,495
Current net assets / (liabilities)	21,630
Non-current assets	77,790
Non-current liabilities	28,163
Non-current net assets / (liabilities)	49,627
Net assets / (liabilities)	71,257
Equity attributable to the owners of the Company	51,522
Accumulated non-controlling interests	19,735
	71,257

Summarized statement of comprehensive income

For the period ended March 31, 2019	
Revenue	155,124
Expenses	162,148
Loss for the year	(7,024)
Loss for the year attributable to:	
Owners of the SADAFCO	(5,476)
Non-controlling interests	(1,548)
Total comprehensive loss for the year	(7,024)
Total comprehensive loss attributable to:	
Owners of the SADAFCO	(5,476)
Non-controlling interests	(1,548)
	(7,024)

Summarized cash flows

For the year ended March 31, 2018	
Cash flows from operating activities	(4,627)
Cash flows from investing activities	(73,390)
Cash flows from financing activities	83,744
Net increase in cash and cash equivalents	5,727

(All amounts in Saudi Riyals thousands unless otherwise stated)

22 Zakat

22.1 Charge for the year

The zakat charge for the year is based on the standalone financial statements of SADAFCO.

The zakat charge for the year ended March 31, consists of the following:

	2019	2018
Charge for the year	**17,240**	20,577

Zakat charge for the year ended March 31, relating to SADAFCO has been calculated on the Zakat base, the significant components of which are as follows:

	2019	2018
Capital	**325,000**	325,000
Adjusted net income	**234,119**	281,000
Adjusted reserves, provisions and others at the beginning of the year	**1,129,789**	1,066,273
Deduction for long-term assets	**(980,806)**	(855,000)
Deduction for spare parts	**(18,500)**	-
Zakat base	**689,603**	817,273

22.2 Movements in provision during the year

	2019	2018
April 1	**20,523**	20,677
Charge for the year	**17,240**	20,577
Payment during the year	**(21,574)**	(20,731)
March 31	**16,189**	20,523

22.3 Status of assessments

Zakat assessments for the years up to and including 2011 have been agreed with the General Authority of Zakat and Tax (GAZT) based on the relevant appeal decisions. GAZT is in the process of issuing revised assessments based on the issued appeal decisions for the years 2005 through 2007 and 2008 through 2011. Estimated additional liability is in the region of Saudi Riyals 7.4 million against which SADAFCO has lodged a bank gurantee of Saudi Riyals 10 million.

SADAFCO has filed an appeal against the GAZT's additional assessment of Saudi Riyals 6.7 million for the years ended March 31, 2012 and 2013. Based on the minutes of the meeting dated February 19, 2019, the GAZT is expected to raise revised assessments for these years. The final expected revised additional zakat liability is expected to be in the region of Saudi Riyals 1.7 million.

The GAZT has issued zakat assessments for the years ended December 31, 2014 through 2017 amounting to SR 2.9 million. SADAFCO is reviewing the assessment and will appropriately respond.

The GAZT has not yet raised an assessment for the year 2018.

22.4 Deferred tax on foreign entities

Deferred tax assets and liabilities relating to foreign entities are not material to the Group's consolidated financial statements.

23 Trade and other payables

	2019	2018
Trade payables	**188,686**	136,707
Other payables	**9,400**	7,855
	198,086	144,562

The trade and other payables are usually settled within 12 months from the reporting date. Hence the carrying amount of these balances is considered to be the same as their fair values.

(All amounts in Saudi Riyals thousands unless otherwise stated)

24 Accruals and other liabilities

	2019	2018
Employee related accruals	**63,637**	53,725
Marketing related accruals	**38,998**	32,718
Rent and utility accruals	**33,592**	25,145
Unclaimed dividend	**3,077**	2,846
Plant and facility maintenance	**6,735**	6,232
Other accruals	**57,993**	43,139
	204,032	163,805

The accrued expenses, accrued employee-related cost, accrued rent and utilities are usually settled within 12 months from the reporting date. Hence the carrying amount of these balances is considered to be the same as their fair values.

25 Related party transactions and balances

(a) Transactions with related parties were undertaken in the ordinary course of business at commercial terms and were approved by the management.

(b) All related parties transactions for the years ended March 31, and balances arising there from are described as under:

	Transactions with related parties		Due to related parties	
Entity with significant influence over the Group	**2019**	**2018**	**2019**	**2018**
Buruj Co-operative Insurance Company (*)	**9,919**	9,651	**2,048**	243
PKC Advisory	**905**	-	**19**	-
			2,067	243

(*) These transactions represent the insurance expense net of any claims received from Buruj Co-operative insurance Company.

The Group's parent entity is Al Qurain Petrochemicals Industries Company which has shareholding equal to 40.11 % of the share capital (2018: 40.11% of the share capital).

Terms and conditions of transactions with related parties

The sales to and purchases from a related party are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash.

There have been no guarantees provided or received for any related party receivables or payables. For the year ended March 31, 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2018: Saudi Riyals Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group

	2019	2018
Short-term employee benefits	**14,055**	14,341
Termination benefits	**699**	891
Total compensation paid to key management personnel	**14,754**	15,232

(All amounts in Saudi Riyals thousands unless otherwise stated)

26 Employee benefit obligations

The Group has a post-employment defined benefit plan. The benefits are required by Saudi Labor and Workman Law. The benefit is based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

The following table summarizes the components of the net benefit expense recognized in the consolidated statement of profit or loss and consolidated statement of comprehensive income and amounts recognized in the consolidated statement of financial position:

	2019	2018
Discount rate	4.0%	3.2%
Expected rate of salary increase	4.0%	3.2%
Death in service	Age wise	Age wise
Withdrawal before normal retirement period	Age wise	Age wise
Net benefit expense recognised in consolidated statement of profit or loss		
Current service cost	**12,296**	11,293
Interest cost on benefit obligations	**3,278**	2,937
Net benefit expense	**15,574**	**14,230**

Net benefit expense recognised in the consolidated statement of comprehensive income

	2019	2018
Remeasurement (gain) / loss arising from experience	**(3,207)**	9,463
Remeasurement gain arising from changes in financial assumptions	**-**	(4,006)
	(3,207)	5,457

Reconciliation of net liability recognized in the consolidated statement of financial position

	2019	2018
Net liability as at beginning of the year	**112,672**	107,835
Interest cost on benefit obligations	**3,278**	2,937
Current service cost	**12,296**	11,293
Remeasurement (gain) / loss	**(3,207)**	5,457
Benefits paid	**(15,463)**	(14,850)
Net liability at end of the year	**109,576**	112,672

The weighted average duration of the defined benefit obligation as at March 31, 2019 is 8.26 years (March 31, 2018: 8.15 years).

The scheme is an unfunded scheme with no assets backing the liabilities under the plan. This exposes the employees to the loss of benefits or delay in payments in case of employer's business not being able to meet its obligations or any unforeseen cash flow demands.

The liabilities are based on certain assumptions which pose a risk that in case the assumptions do not materialize as assumed, the liabilities may vary. For this purpose, sensitivity of results to certain key assumptions is indicated below:

Discount rate:

	2019	2018
0.25% increase in discount rate	**106,942**	107,816
0.25% decrease in discount rate	**109,015**	111,955

(All amounts in Saudi Riyals thousands unless otherwise stated)

26 Employee benefit obligations (continued)

Salary escalation rate:

	2019	2018
0.25% increase in salary escalation rate	**109,242**	112,228
0.25% decrease in salary escalation rate	**104,720**	107,583

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

The expected maturity analysis of undiscounted employee benefits obligations is as follows:

	2019	2018
1 - 5 years	**41,845**	45,546
Over 6 - 10 years	**46,194**	59,546

27 Financial Instruments

27.1 Financial assets

	2019	2018
Financial assets at amortised cost		
Trade and other receivables	**192,792**	156,809
Cash and cash equivalents	**582,055**	559,099
Total financial assets	**774,847**	715,908

Trade and other receivables
Trade and other receivables are non-derivative financial assets carried at amortised cost. The carrying value may be affected by changes in the credit risk of the counterparties.

27.2 Financial liabilities

	2019	2018
Financial liabilities at amortized cost		
Trade and other payables	**198,086**	144,562
Accruals and other liabilities	**200,946**	163,805
Due to related parties	**2,067**	243
Total financial liabilities	**401,099**	308,610
Financial liabilities at fair value through profit or loss		
Non-controlling interest put option	**24,088**	-
Contingent consideration payable	**6,842**	-
Total financial liabilities	**30,930**	-

27.3 Financial instruments carried at fair value

a) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- For contingent consideration payable expected future sales and net margins targets
- For non-controlling interest put option present value of future earnings

(All amounts in Saudi Riyals thousands unless otherwise stated)

27 Financial Instruments (continued)

b) Fair value measurements using significant unobservable inputs (level 3)

	Contingent consideration payable	Non-controlling interest put option
April 1, 2018	-	-
Acquisition of a subsidiary	6,842	23,530
Unwinding of discount	89	558
March 31, 2019	6,931	24,088

c) Valuation process

The Group involves a team of the affiliated group of the ultimate parent that performs the valuations of financial instruments at fair value required for financial reporting purposes. This team reports directly to the chief financial officer (CFO). The main level 3 inputs used by the Group are derived and evaluated as follows:

- Contingent consideration – expected cash flows are estimated based on achievement of target sales and net margins as per the terms of SPA and the entity's knowledge of the business and how the current economic environment is likely to impact it.
- Non-controlling interest put option – expected earnings multiplier to audited EBITDA of financial year 2022 of Mlekoma group as reduced by net debt in accordance with the SPA.

28 Financial instruments risk management objective and policies

The Group's principal financial liabilities comprise trade and other payables and accruals and other liabilities. The Group's principal financial assets include trade and other receivables, investment in unquoted equity and cash and cash equivalents. The carrying amounts of the Group's financial instruments are reasonable approximations of fair values.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below:

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk such as equity price risk.

The sensitivity analyses in the following sections relate to the position as at March 31, 2019.

i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At March 31, 2019 and 2018, the Group does not have any borrowings and accordingly no interest rate risk sensitivity is presented. Further, interest rate risk related to murabaha short-term bank deposits, contingent consideration and non-controlling put option is immaterial as at March 31, 2019 and 2018.

ii) Currency risk

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in currency that is not the Group's functional currency. During the year, the Group's transactions were in Saudi Riyals, Bahraini Dinars, Polish Złoty, Kuwaiti Dinars, Jordanian Dinars, Euros and United States Dollars.

The Group's exposure to currency risk arising from currencies that are not pegged to Saudi Riyals is not material to these financial statements. The Group is not significantly exposed to fluctuations in foreign exchange rates during its ordinary course of business as significant transactions of the Group, during the year were either in Saudi Riyals or US Dollars.

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 Financial instruments risk management objective and policies (continued)

iii) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its investing activities i.e. deposits with banks and financial institutions.

The Group's gross maximum exposure to credit risk at the reporting date is as follows:

	March 31, 2019	March 31, 2018
Financial assets		
Trade receivables – net	**180,637**	146,669
Cash and cash equivalents	**582,055**	559,099
	762,692	705,768

(a) Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on a set of qualitative and quantitative factors and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and provided that are considered doubtful of recovery.

At March 31, 2019, the Group had 5 customers that accounted for approximately 44 % (March 31, 2018: 48%) of total outstanding trade receivable. Trade receivables outstanding balance comprises 82% in KSA, 8% in GCC (other than KSA) and 10% in other countries. Due to short term nature of the trade receivable, their carrying amount is considered to be the same as their fair value.

The requirement for an impairment is analyzed at each reporting date on an individual basis for major customers. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. A significant increase in credit risk is presumed if a debtor is more than 90 days past due in making a contractual payment. A default on a trade receivable is when the counterparty fails to make contractual payments within 90 days of when they fall due. The Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in the statement of profit or loss. The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

The Group establishes that there is no reasonable expectation of the recovery once they are not subject to enforcement activity.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customer base is diversified.

The Group is exposure to credit risk at the reporting date is as follows:

	March 31, 2019	March 31, 2018
Cash at banks	**568,568**	544,413
Trade receivables – third parties	**180,637**	146,669
	749,205	691,082

IFRS 9 replaces the 'incurred loss' model with a forward-looking 'expected credit loss' (ECL) model. Cash at banks are placed with banks with sound credit ratings. Security and other deposits are considered to have low credit risk; therefore, 12 months expected loss model was used for impairment assessment. Based on management impairment assessment, there is no provision required in respect of these balances for years presented.

For trade receivable, the Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Further, the expected credit losses also incorporate forward looking information.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 Financial instruments risk management objective and policies (continued)

Impairment loss on financial assets recognised in the statement of profit or loss were as follows:

	Note	March 31, 2019	March 31, 2018
Impairment loss on trade receivables	17	1,502	2,825

The following table provides information about the exposure to credit risk and ECLs for trade receivables from external customers:

March 31, 2019	Weighted average loss rate	Gross carrying amount	Loss allowance
Current (not past due)	0.06% - 1.56%	167,982	546
1–90 days past due	0.05% - 1.51%	11,897	28
90–180 days past due	0.72% - 14.97%	572	5
180+ days past due	38.48% - 100%	6,920	6,155
Specific provision	100.00%	14,927	14,927
	10.71%	202,298	21,661

April 1, 2018	Weighted average loss rate	Gross carrying amount	Loss allowance
Current (not past due)	0.03% - 1.75%	134,807	1,277
1–90 days past due	0.03% - 1.66%	10,703	69
90–180 days past due	0.41% - 18.32%	2,747	406
180+ days past due	40.46% - 100%	7,072	6,908
Specific provision	100.00%	11,499	11,499
	12.08%	166,828	20,159

(b) Cash and cash equivalents

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the period subject to approval of the Group's Finance Committee. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Group deals with reputable banks with investment grade credit ratings and the credit quality of the cash and cash equivalents can be assessed by reference to external credit ratings.

Credit risk on bank balances is limited as cash balances are held with banks with sound credit ratings ranging from A3 and above.

Liquidity risk

The Group monitors its liquidity risk by regular working capital excess/shortage assessment and ensuring that it has adequate liquidity to fund its day to day operations. Where necessary, the Group may enter into overdraft facility with banks in order to ensure continued funding of operations.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

March 31, 2019	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Trade and other payables	-	198,086	-	-	-	198,086
Accruals and other liabilities	3,077	197,869	-	-	-	200,946
Due to related parties	2,067	-	-	-	-	2,067
Non-controlling interest put option	-	-	-	-	27,508	27,508
Contingent consideration payable	-	-	-	7,158	-	7,158
	5,144	395,955	-	7,158	27,508	435,765

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 Financial instruments risk management objective and policies (continued)

March 31, 2018	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Trade and other payables	-	144,562	-	-	-	144,562
Accruals and other liabilities	2,846	160,959	-	-	-	163,805
Due to related parties	243	-	-	-	-	243
Non-controlling interest put option	-	-	-	-	-	-
Contingent consideration payable	-	-	-	-	-	-
	3,089	305,521	-	-	-	308,610

29 Contingencies and commitments

(a) At March 31, 2019, the Group has outstanding commitments for future capital expenditures amounting to Saudi Riyals 34.0 million (2018: Saudi Riyals 120.6 million).

(b) As at March 31, 2019, the Group has a contingent liability of Saudi Riyals 11.3 million (2018: Saudi Riyals 10.0 million) in respect of guarantees issued by the Group's bankers to the General Authority of Zakat and Tax and a supplier.

(c) Operating lease

The Group has land for its factory buildings and depots under an operating lease. Rental expense for the year ended March 31, 2019 amounted to Saudi Riyals 18.8 million (2018: Saudi Riyals 20.7 million). Future rental commitments at March 31 are as follows:

Years ending in:	Undiscounted value 2019	2018
Less than a year	**13,644**	23,940
Between 1 to 5 years	**13,949**	16,413
Over 5 years	**11,695**	11,695
	39,288	52,048

30 Dividends

In the Annual General Meeting of the Group held on July 3, 2018 the shareholders authorized payment of final dividend of Saudi Riyals 2 per share (Saudi Riyals 65 million) and in the Extraordinary General Assembly held on December 18, 2018, respectively, the shareholders approved payment of half year dividend of Saudi Riyals 2 per share (Saudi Riyals 65 million). Total dividend distributed for the year amounted to Saudi Riyal 130 million (SAR 4 per share).

31 Treasury shares

At the Extraordinary General Assembly Meeting (EGM) of the Group held on December 18, 2018, the shareholders approved the purchase of up to 10% of SADAFCO shares to be used as treasury shares. Any purchases can be made in one or several phases, within a maximum period of twelve (12) months, following the EGM. The EGM has also approved to hold the purchased treasury shares for a period up to 5 years. As at March 31, 2019 the Group had purchased 500,250 shares, at a cost of Saudi Riyals 51.6 million.