BAWAN COMPANY AND ITS SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

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

BAWAN COMPANY AND ITS SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

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

INDEX	**PAGE**

Deloitte.

Deloitte and Touche & Co.
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Date 24/4/1419
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Bawan Company and its subsidiaries
(Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bawan Company, a Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are these 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.

We have fulfilled the responsibilities described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BAWAN COMPANY AND ITS SUBSIDIARIES (CONTINUED)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the Key Audit Matter
Acquisition of subsidiary The Group acquired 100% of the share capital of Arnon Plastic Industries Company ("Arnon") from a related party with effect from January 1, 2019 for a total consideration of SR 191 million. Goodwill of SR 4 million was recognized as a result of this acquisition and represents the excess of the total consideration paid over the fair value of identifiable net assets acquired of SR 187 million. This transaction is in the scope of IFRS 3 Business Combinations which requires significant management judgement in determining the acquisition-date fair values of identifiable assets acquired and liabilities assumed. Management engaged independent professional valuers to assist them in the determination of the fair values of the acquired net assets at the acquisition date. This includes the identification and valuation of intangible assets which requires judgements to be made. Key estimates applied in the determination of fair values include, inter alia, discount rates, revenue growth rates, gross margins and useful life of assets. Any significant changes in these key estimates may give rise to material changes in the fair value of the acquired assets and liabilities including intangible assets, which directly impact the goodwill recognised. We have considered this to be a key audit matter due to the significant judgements applied and estimates made in determining the acquisition-date fair values of identifiable assets acquired and liabilities assumed. Refer to note 2 for accounting policy and note 37 for related disclosure.	We have performed the following procedures in response to the key audit matter identified: • We evaluated the design and implementation of controls over the acquisition. • Obtained and reviewed relevant contracts related to the acquisitions and evaluated management's process to identify intangible assets; • Evaluated the competency, capabilities and objectivity of management's expert, obtained an understanding of the work of that expert and evaluated the appropriateness of that expert's work as audit evidence for the relevant assertion; • Engaged our internal valuation specialists to review the tangible and intangible assets valuation report, which included a series of discussions with management's expert to critically challenge the valuation methodology and key underlying assumptions in determining the acquisition-date fair values; • We assessed the key estimates made in determining the value of the assets acquired, such as revenue growth rates and gross margins applied by management, by comparing them with economic and industry forecasts; and • We assessed the disclosures made in in the consolidated financial statements to determine if they were in compliance with IFRSs.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BAWAN COMPANY AND ITS SUBSIDIARIES (CONTINUED)

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in our audit
Allowance for slow moving and obsolete inventories Inventories are stated at the lower of cost and net realizable value and an allowance for slow moving inventories is made by the Group's management, where necessary. Management estimates the level of obsolescence of inventories considering the nature, ageing and other sales expectation factors and reviews the valuation of inventories for the purpose of writing-off the cost of inventories which are in excess of their expected net realizable value. We considered this to be a key audit matter due to the level of significant judgments applied and estimates made by management in determining the allowance for slow moving inventories and inventories written off based on the assessment of their net realizable value. Refer to note 2 for accounting policy and note 17 for related disclosure.	Our procedures included the following: • Assessed the design and implementation and tested the effectiveness of the Group's controls around the estimation and monitoring of the allowance of slow moving inventories; • Evaluated the Group's policies for slow moving inventories by comparing historical estimations to actual results, assessing the consistency of the policy with prior years and our knowledge of industry practice; • Tested the accuracy and completeness of the inventory ageing reports used by management in the assessment of the allowance for slow moving inventories and arithmetical accuracy of the computations; • We determined if the allowance for inventories is in accordance with the Group's policies in this area; • Inquired about the existence of any obsolete or slow moving inventories during our attendance at physical inventory counts; and • We tested the value of inventory on a sample basis to determine if it is measured at the lower of cost and net realizable value by comparing the carrying amount of the inventory to recent sales prices.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BAWAN COMPANY AND ITS SUBSIDIARIES (CONTINUED)

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td><u>Expected credit losses for trade receivables</u>

As at December 31, 2019 the gross carrying amount of trade receivables was SR 657 million (2018: 611 million) against which the Group recognized SR 67 million (2018: 60 million) as an allowance for doubtful debts.

The Group assesses at each reporting date whether these financial assets are credit-impaired. The Group's management has applied a simplified expected credit loss ("ECL") model to determine the allowance for doubtful debts. The ECL model contains various estimates that include the Group's historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the overall economic environment.

We considered this to be a key audit matter due to the level judgements applied and estimates made in the application of the expected credit loss model.

Refer to note 2 for accounting policy and note 19 for related disclosure.</td><td>We developed an understanding of relevant business process and performed the following procedures:

• We specifically considered the validity of management's conclusion that the main area of impact was in respect of the determination of the allowance against trade receivables, using our experience and knowledge of similar entities;

• We assessed the design and implementation of controls over the determination of the ECL allowance.

• We verified that the ECL model developed by management is consistent with the requirements of IFRS 9 and reviewed the reasonableness of the methodology in comparison to accepted best practice;

• We tested the completeness and accuracy of underlying information used in the model and re-performed the arithmetical accuracy of the computation of ECL;

• We tested key assumptions made and judgements applied, for example, those used to calculate the likelihood of default and loss on default by comparing to historical data. We also considered the appropriateness of forward-looking factors to reflect the impact of future events on expected credit losses; and

• We assessed if the disclosures in the consolidated financial statements were in accordance with the requirements of IFRSs.</td></tr>
</table>

Other Matter
The consolidated financial statements of the Group for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on March 18, 2019.

Other Information
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BAWAN COMPANY AND ITS SUBSIDIARIES (CONTINUED)

Other Information (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available 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 these consolidated financial statements in accordance with IFRSs that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws 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.

Those charged with governance, in particular the Group's audit committee, are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BAWAN COMPANY AND ITS SUBSIDIARIES (CONTINUED)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness 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 these 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.

Deloitte and Touche & Co
Chartered Accountants

Al-Mutahhar Y. Hamiduddin
License No. 296
March 22, 2020
27 Rajab, 1441H

ديلويت آند توش وشركاهم
محاسبون ومراجعون قانونيون
فرع مكتب جدة
س.ت: ٤٠٣٠٢٩٧٠٤٩
CR.: 4030297049
Deloitte and Touche & Co.
Chartered Accountants
Jeddah Branch

BAWAN COMPANY AND ITS SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	**2019**	2018
Revenue	5, 28	**2,235,233**	1,953,455
Cost of revenue	28	**(1,989,173)**	(1,797,879)
Gross profit		**246,060**	155,576
Selling and distribution expenses	6	**(81,427)**	(46,391)
Administrative expenses	7	**(146,102)**	(109,649)
Impairment of goodwill and property, plant and equipment	13, 15	**-**	(189,167)
Other income	8	**52,422**	8,037
Profit (loss) before finance charges, Zakat and income tax		**70,953**	(181,594)
Finance charges	9	**(42,404)**	(26,510)
Profit (loss) before Zakat and income tax		**28,549**	(208,104)
Zakat	10.1	**(6,806)**	(16,195)
Income tax	10.2	**-**	(24)
Profit (loss) for the year		**21,743**	(224,323)
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Re-measurement (loss) gain on employee defined benefit liabilities	25	**(8,125)**	11,457
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(105)**	(886)
Total comprehensive income (loss) for the year		**13,513**	(213,752)
Profit (loss) for the year attributable to:			
Owners of the Company		**26,632**	(218,353)
Non-controlling interests		**(4,889)**	(5,970)
		21,743	(224,323)
Total comprehensive income (loss) for the year attributable to:			
Owners of the Company		**19,542**	(208,909)
Non-controlling interests		**(6,029)**	(4,843)
		13,513	(213,752)
Earnings per share (SR)			
Basic and diluted	12	**0.44**	(3.64)

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

BAWAN COMPANY AND ITS SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	**2019**	2018
ASSETS			
Non-current assets			
Property, plant and equipment	13	**827,763**	431,646
Right-of-use assets	14	**21,857**	23,622
Goodwill	15	**4,397**	331
Other intangible assets	16	**11,483**	1,326
Non-current trade and other receivables	19	**4,230**	5,760
Total non-current assets		**869,730**	462,685
Current assets			
Inventories	17	**526,663**	555,762
Spare parts		**27,282**	17,643
Investment in financial assets	18	**48,775**	-
Trade and other receivables	19	**699,896**	605,012
Contract assets	20	**34,659**	26,896
Cash and cash equivalents		**45,899**	42,637
Total current assets		**1,383,174**	1,247,950
TOTAL ASSETS		**2,252,904**	1,710,635
EQUITY AND LIABILITIES			
Equity			
Share capital	21	**600,000**	600,000
Statutory reserve	22	**10,585**	88,927
Retained earnings (accumulated losses)		**16,940**	(81,005)
Foreign currency translation reserve		**(1,351)**	(1,307)
Equity attributable to owners of the Company		626,174	606,615
Non-controlling interests	32.2	**70,630**	89,483
Total equity		**696,804**	696,098
Non-current liabilities			
Loans	23.2	**269,745**	20,501
Lease liabilities	24	**21,282**	23,388
Employee defined benefit liabilities	25	**79,780**	61,001
Total non-current liabilities		**370,807**	104,890
Current liabilities			
Trade and other payables	26	**433,777**	293,634
Due to banks	23.1	**658,275**	528,288
Contract liabilities	27	**33,673**	39,872
Current portion of loans	23.2	**40,416**	17,667
Current portion of lease liabilities	24	**2,660**	3,180
Zakat payable	10.1	**14,123**	19,187
Income tax payable	10.2	**-**	56
Dividends payable		**2,369**	7,763
Total current liabilities		**1,185,293**	909,647
Total liabilities		**1,556,100**	1,014,537
TOTAL EQUITY AND LIABILITIES		**2,252,904**	1,710,635

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

BAWAN COMPANY AND ITS SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings (accumulated losses)	Foreign currency translation reserve	Attributable to owners of the Company	Non-controlling interests	Total equity
Balance at January 1, 2018	600,000	88,927	151,533	(936)	839,524	101,731	941,255
Loss for the year	-	-	(218,353)	-	(218,353)	(5,970)	(224,323)
Other comprehensive income (loss)	-	-	9,815	(371)	9,444	1,127	10,571
Total comprehensive loss for the year	-	-	(208,538)	(371)	(208,909)	(4,843)	(213,752)
Dividends (note 39)	-	-	(24,000)	-	(24,000)	(7,405)	(31,405)
Balance at December 31, 2018	600,000	88,927	(81,005)	(1,307)	606,615	89,483	696,098
Balance at January 1, 2019	**600,000**	**88,927**	**(81,005)**	**(1,307)**	**606,615**	**89,483**	**696,098**
Impact of adoption of IFRS 16 (note 3)	**-**	**-**	**17**	**-**	**17**	**-**	**17**
Balance at January 1, 2019 (adjusted)	**600,000**	**88,927**	**(80,988)**	**(1,307)**	**606,632**	**89,483**	**696,115**
Profit (loss) for the year	**-**	**-**	**26,632**	**-**	**26,632**	**(4,889)**	**21,743**
Other comprehensive loss	**-**	**-**	**(7,046)**	**(44)**	**(7,090)**	**(1,140)**	**(8,230)**
Total comprehensive income (loss) for the year	**-**	**-**	**19,586**	**(44)**	**19,542**	**(6,029)**	**13,513**
Transfer to statutory reserve (note 22)	**-**	**2,663**	**(2,663)**	**-**	**-**	**-**	**-**
Absorption of accumulated losses (note 1)	**-**	**(81,005)**	**81,005**	**-**	**-**	**-**	**-**
Dividends	**-**	**-**	**-**	**-**	**-**	**(12,824)**	**(12,824)**
Balance at December 31, 2019	**600,000**	**10,585**	**16,940**	**(1,351)**	**626,174**	**70,630**	**696,804**

BAWAN COMPANY AND ITS SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) before Zakat and income tax		**28,549**	(208,104)
Adjustments for:			
Depreciation and amortization	13, 16, 29	**71,755**	53,195
Impairment of property, plant and equipment	13	**-**	19,397
Impairment of goodwill	15	**-**	169,770
Net re-measurement of loss allowance	19	**7,169**	16,763
Employee defined benefit liabilities	25	**11,670**	10,990
Finance charges	9	**42,404**	26,510
Gain on financial assets	18	**(13,118)**	-
Gain on derecognition of leases		**(323)**	-
Gain on disposal of property, plant and equipment		**(810)**	(64)
Operating cash flows before movements in working capital		**147,296**	88,457
Movements in working capital			
Decrease in trade and other receivables		**3,672**	16,822
Increase in contract assets		**(7,763)**	(13,160)
Decrease (increase) in inventories		**164,743**	(55,775)
Increase in spare parts		**(3,889)**	(803)
Increase (decrease) in trade and other payables		**60,556**	(16,215)
(Decrease) increase in contract liabilities		**(6,199)**	1,586
Cash generated from operations		**358,416**	20,912
Finance charges paid		**(43,596)**	(23,408)
Zakat paid	10.1	**(13,258)**	(19,514)
Employee defined benefit liabilities paid	25	**(8,356)**	(7,976)
Income tax paid	10.2	**(56)**	(363)
Net cash flows from (used in) operating activities		**293,150**	(30,349)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of/adjustments to property, plant and equipment		**(99,392)**	(44,807)
Purchase of intangible assets		**(7)**	(35)
Purchase of investment in financial assets	18	**(88,556)**	-
Proceeds from disposal of investment in financial assets		**52,899**	-
Proceeds from disposal of property, plant and equipment		**1,118**	301
Net cash outflow on acquisition of subsidiary, net of cash acquired	37	**(188,252)**	-
Net cash used in investing activities		**(322,190)**	(44,541)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (decrease) increase in amounts due to banks	23.3	**(95,033)**	104,752
Loans obtained	23.3	**251,631**	6,045
Repayment of loans	23.3	**(102,119)**	(17,423)
Repayment of lease liabilities		**(3,929)**	(4,252)
Dividends paid		**-**	(23,974)
Dividends paid to non-controlling interests		**(18,218)**	-
Net cash flows from financing activities		**32,332**	65,148
Net increase (decrease) in cash and cash equivalents		**3,292**	(9,742)
Effect of exchange rate changes on cash held in foreign currencies		**(30)**	(165)
Cash and cash equivalents at the beginning of the year		**42,637**	52,544
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**45,899**	42,637

SUPPLEMENTAL CASH FLOW INFORMATION (note 33)

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

1. ACTIVITIES

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

These consolidated financial statements include the financial statements of the Company and the following subsidiaries (collectively "the Group"), all of which are located in the KSA:

	Effective ownership	
	2019	2018
	%	%
Bawan Metal Industries Company ("Bawan Metal")	**100.00**	100.00
Bawan Engineering Industries Company ("Bawan Engineering")	**100.00**	100.00
Arnon Plastic Industries Company ("Arnon")	**100.00**	-
Bawan Wood Industries Company ("Bawan Wood")	**95.00**	95.00
United Company for Wood and Metal Products ("United Wood and Metal")	**95.00**	95.00
Bina Holding for Industrial Investments ("Bina Holding")	**56.75**	56.75

Indirect subsidiaries include the following:

		Ownership	
		2019	2018
	Location	**%**	%
Bawan Metal:			
Bawan Contracting for Building and Construction ("BCBC") - liquidated in 2019	Saudi Arabia	-	100.00
Bawan Engineering:			
United Transformers Electric Company-Saudi ("Utec-Saudi")	Saudi Arabia	**85.50**	85.50
United Transformers Electric Company-Algeria ("Utec-Algeria")	Algeria	**49.00**	49.00
United Technology of Electric Substations & Switchgears Company ("USSG")	Saudi Arabia	**85.50**	85.50
Bawan Electric Company Limited ("Bawan Electric")	Saudi Arabia	**100.00**	100.00
Bawan Mechanical Works Company Limited ("Bawan Mechanical") - under liquidation	Saudi Arabia	**100.00**	100.00
Bawan Wood:			
Al-Raya Wood Works Establishment-UAE	UAE	**100.00**	100.00
Al-Raya Company for Wood Works-Kuwait	Kuwait	**100.00**	100.00
Inma Pallets Company Limited ("Inma Pallets")	Saudi Arabia	**100.00**	100.00
United Lines Logistics Services Company Limited ("ULLS")	Saudi Arabia	**100.00**	100.00
Bina Holding:			
Bina Ready-Mix Concrete Products Company ("Bina Ready-Mix")	Saudi Arabia	**100.00**	100.00
Bina Advanced Concrete Products Company ("Bina Precast")	Saudi Arabia	**93.20**	93.20
Al-Ahliah Transport Company Limited	Saudi Arabia	**100.00**	100.00
Total Building Company	Saudi Arabia	**100.00**	100.00

The Group is mainly engaged in the manufacturing of metal and steel works, wooden pallets, plywood panels, boards and all work of carpentry and decorations, electrical transformers, packaged and unit substations, ready-mix and concrete products and production of flexible packaging and insulation products.

1. ACTIVITIES (CONTINUED)

The Company acquired 100% shareholding in Arnon with effect from January 1, 2019. Legal formalities related to the acquisition of Arnon were completed during the year (note 37).

During the year, legal formalities related to the liquidation of BCBC were completed.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations as issued by the International Accounting Standards Board ("IASB") as endorsed in KSA and other related standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA").

Basis of preparation
The consolidated financial statements are prepared under the historical cost convention, except for certain financial instruments measured at fair value and employee defined benefit liability, which has been actuarially valued as explained in the accounting policies below.

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

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

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 'Inventories' or value in use in IAS 36 'Impairment of Assets'.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. These interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries
Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between:

(i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
(ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified by applicable IFRS).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate.

Goodwill

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

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

Goodwill is not amortized but is reviewed for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition
The Group recognises revenue from the following major sources:

- Sale of various manufactured goods; and
- construction of various bespoke items for customers

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

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

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

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

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

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

Leasing

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (continued)

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

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

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

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Employee benefits

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

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

Retirement benefits
Retirement benefits made to funded defined contribution plans in respect of Saudi employees are expensed when incurred.

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

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

Value added tax
Expenses and assets are recognized net of the amount of value added tax, except:

- when the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- when receivables and payables are stated with the amount of value added tax included. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the probability of an outflow of resources embodying economic benefits is remote. Liabilities which are probable are recorded in the consolidated statement of financial position under trade and other payables. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Earnings per share
The Group presents basic, and diluted earnings per shares (EPS) data for its ordinary shares. Basic EPS is calculated by dividing net income for the year of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the net income for the year and the weighted average number of ordinary shares outstanding during the year, adjusted for the own shares held, for the effects of all dilutive potential ordinary shares.

(All amounts in Saudi Riyals thousands unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

Software	20%
Customer relationships	20% to 29%
Trade name	20%

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Financial instruments
Financial assets and financial liabilities are recognized in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

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

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

Classification of financial assets

(i) Debt instruments measured at amortized cost
Debt instruments that meet the following conditions are measured subsequently at amortised cost:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Debt instrument measured at fair value through other comprehensive income
Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

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

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

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

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

<u>(iii) Equity instruments designated as at FVTOCI</u>
On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

<u>(iv) Financial assets measured at FVTPL</u>
Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Specifically investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. Dividends on these investments in equity instruments are recognized in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

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

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

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

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

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

Derecognition of financial assets
The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Equity instruments and financial liabilities

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

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

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

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

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

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

Derecognition of financial liabilities
The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Warranties

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

Cost of revenue

The costs incurred during the year, to produce the inventories that are sold, render the services and perform the contracts which includes direct and indirect cost of production, including direct labor, direct materials, depreciation and overheads are classified as cost of revenue.

Expenses

Selling and distribution expenses principally consist of costs incurred in the distribution and selling of the Group's products.

General and administrative expenses include costs not specifically part of selling and distribution expenses, cost of revenue, finance charges or Zakat and income tax expense. Allocations between general and administrative expenses, selling and distribution expenses and cost of revenue, when required, are made on a consistent basis.

Dividends

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

Segmental reporting

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

i) engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Group's other components;
ii) the results of its operations are continuously analyzed by the group controller in order to make decisions related to resource allocation and performance assessment; and
iii) for which financial information is discretely available

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The details of Group's segments are presented in note 31 to these consolidated financial statements.

(All amounts in Saudi Riyals thousands unless otherwise stated)

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1 New and amended IFRSs in issue but not yet effective and not early adopted

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

New and revised IFRSs	**Effective for annual periods beginning on or after**
Definition of a Business – Amendments to IFRS 3 *Business Combinations*	January 1, 2020
The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.	
Amendments to *References to the Conceptual Framework in IFRS Standards*	January 1, 2020
Amendments to References to the Conceptual Framework in IFRS Standards related to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	
IFRS 7 Financial Instruments: Disclosures and IFRS 9 — Financial Instruments	January 1, 2020
Amendments regarding pre-replacement issues in the context of the IBOR reform	
IFRS 17 *Insurance Contracts*	January 1, 2022
IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as at January 1, 2022.	
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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

3.1 New and amended IFRSs in issue but not yet effective and not early adopted (continued)

Management anticipates that these new standards, interpretations and amendments will be adopted in the consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, may have no material impact on the financial statements of the Group in the period of initial application.

3.2 New and amended IFRS Standards that are effective for the current year

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1, 2019, have been adopted in these consolidated financial statements.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation and Modification of financial liabilities*

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after January 1, 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures.

These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Annual Improvements to IFRSs 2015-2017 *Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*

The *Annual Improvements* include amendments to four Standards:

(i) IAS 12 *Income Taxes*

The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

(ii) IAS 23 *Borrowing costs*

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

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

3.2 New and amended IFRS Standards that are effective for the current year (continued)

(iii) IFRS 3 *Business Combinations*

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be re-measured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

(iv) IFRS 11 *Joint Arrangements*

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its PHI in the joint operation.

Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements.

IFRIC 23 *Uncertainty over Income Tax Treatments*

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Impact of adoption of IFRS 16 Leases on newly acquired subsidiary
IFRS 16 Leases (as issued by the International Accounting Standards Board in January 2016) is effective on or after January 1, 2019, however, as permitted by IFRS 16, the Group elected to early adopt this Standard effective from January 1, 2018 except for the newly acquired subsidiary where the Group applied the Standard effective from January 1, 2019.

The Group applied IFRS 16 retrospectively with the cumulative effect of initially applying the Standard recognized as an adjustment to retained earnings as at January 1, 2018 except for the newly acquired subsidiary for which adjustment is made to retained earnings as at January 1, 2019. Accordingly, comparative information has not been restated. The Group measured the lease liability at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate at the date of initial application and recognized a right-of-asset as if IFRS 16 had been applied since the commencement of the lease.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

Employee defined benefit liabilities
Employee defined benefit liabilities are determined using an actuarial valuation which requires estimates to be made of the various inputs such as discount rates, rate of salary increase, mortality rates and employment turnover. Periodically, management of the Group consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit liabilities and/or periodic employee defined benefit costs incurred. These estimates have been disclosed in note 25.

5. REVENUE

The Group derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time. Refer to note 31 for disclosure of the revenue earned for each reportable segment under IFRS 8 Operating Segments.

The transaction price allocated to unsatisfied performance obligations at December 31, 2019 amounted to SR 33.67 million (December 31, 2018: SR 39.87 million) which comprise entirely from sales of goods.

Management expects that a significant portion of contract liabilities of SR 33.67 million (December 31, 2018: SR 39.87 million) will be recognized as revenue in the next financial year.

(All amounts in Saudi Riyals thousands unless otherwise stated)

6. SELLING AND DISTRIBUTION EXPENSES

	2019	2018
Wages, salaries and related costs	**34,344**	21,177
Transportation and shipping	**24,803**	11,014
Sales commission	**5,466**	3,027
Delivery and insurance	**2,576**	1,281
Repairs and maintenance	**2,433**	2,014
Depreciation (note 13)	**2,369**	2,120
Advertising	**1,935**	1,168
Royalties (note 28)	**526**	561
Others	**6,975**	4,029
	81,427	46,391

7. ADMINISTRATIVE EXPENSES

	2019	2018
Wages, salaries and related costs	**74,491**	62,585
Provision for inventories (note 37)	**27,955**	-
Depreciation and amortization (notes 13, 14 and 16)	**10,253**	4,621
Re-measurement of loss allowance	**9,099**	16,763
Operating lease charges	**2,760**	1,469
Board and committee members' compensation	**2,387**	2,266
Communication and utilities	**2,259**	1,313
Insurance	**2,249**	1,823
Travel	**2,090**	1,255
Repairs and maintenance	**1,846**	1,590
Others	**10,713**	15,964
	146,102	109,649

8. OTHER INCOME

	2019	2018
Compensation against provision for inventories (notes 28 and 37)	**27,955**	-
Gains on disposal of investment in financial assets (note 18)	**8,621**	-
Scrap and material sales	**5,714**	4,444
Fair value gain on financial assets (note 18)	**4,497**	-
Reversal of excess provisions	**1,019**	1,656
Others	**4,616**	1,937
	52,422	8,037

(All amounts in Saudi Riyals thousands unless otherwise stated)

9. FINANCE CHARGES

	2019	2018
Finance charges on amounts due to banks	**26,898**	16,707
Finance charges on loans	**8,108**	2,457
Finance charges on lease liabilities (note 29)	**901**	876
Other finance charges	**6,497**	6,470
	42,404	26,510

Finance charges capitalized during the year amounted to SR 3.13 million (2018: nil). Others mainly represent charges relating to issuing letters of credit and guarantee.

10. ZAKAT AND INCOME TAX

	2019	2018
Zakat	**6,806**	16,195
Income tax	**-**	24
Charged for the year	**6,806**	16,219

Income tax rate reconciliation
Standard tax rate for the current and prior year is 20%. The effective tax rate for the current and prior years is not applicable as the Group has taxable losses for the current and prior years.

10.1 The movement in Zakat payable is as follows:

	2019	2018
Balance at beginning of the year	**19,187**	22,501
Acquisition of subsidiary (note 37)	**1,400**	-
Charged to profit or loss	**6,806**	16,195
Paid during the year	**(13,258)**	(19,514)
Other adjustments	**(12)**	5
Balance at end of the year	**14,123**	19,187

10.2 The movement in income tax payable is as follows:

	2019	2018
Balance at beginning of the year	**56**	395
Charged to profit or loss	**-**	24
Paid during the year	**(56)**	(363)
Balance at end of the year	**-**	56

(All amounts in Saudi Riyals thousands unless otherwise stated)

10. ZAKAT AND INCOME TAX (CONTINUED)

The Company and its 100% effectively owned Saudi Arabian subsidiaries submit Zakat returns on a combined basis. Other Group subsidiaries submit their Zakat and income tax returns independently. Zakat returns for the Company have been filed and paid for all years through to 2018 and Zakat certificates have been received. In 2018, the Company received the final assessments for the years from 2010 to 2014 claiming additional Zakat liability of SR 7.83 million. The Company settled the additional Zakat liability for the years from 2011 to 2014 and raised an objection against the 2010 final assessment by SR 2.82 million. During the year, the Company's objection was accepted and an amount of SR 0.21 million was paid to settle the final assessment for the year 2010.

The final assessments for the years 2015 to 2018 are currently under review by GAZT. Management believes that it has sufficient provision to cover the Zakat liability.

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

11. EMPLOYEE BENEFITS EXPENSES

	2019	2018
Employee defined benefit liabilities (note 25)	**11,670**	10,990
Other employee benefits	**221,230**	176,465
	232,900	187,455

12. EARNINGS PER SHARE

Basic and diluted earnings (loss) per share are computed based on profit (loss) for the year attributable to owners of the Company divided by the weighted average number of shares outstanding during the year.

The following reflects the profit (loss) and shares data used in the computation of basic and diluted earnings per share:

	2019	2018
Profit (loss) for the year attributable to owners of the Company	**26,632**	(218,353)
Weighted average number of ordinary shares outstanding during the year	**60,000**	60,000
Basic and diluted earnings (loss) per share (in Saudi Riyals)	**0.44**	(3.64)

There has been no item of dilution affecting the weighted average number of ordinary shares in current and prior years.

(All amounts in Saudi Riyals thousands unless otherwise stated)

13. PROPERTY, PLANT AND EQUIPMENT

COST	Land	Building and leasehold improvement	Plant and machinery	Vehicles	Furniture, fixture and office equipment	Tools	Capital work- in progress	Total
January 1, 2019	**47,399**	**266,129**	**418,394**	**90,638**	**35,829**	**15,651**	**60,934**	**934,974**
Acquisition of subsidiary (note 37)	**24,107**	**104,167**	**267,735**	**2,711**	**8,804**	**-**	**61,232**	**468,756**
Additions	**-**	**1,698**	**6,176**	**10,486**	**1,286**	**754**	**78,992**	**99,392**
Disposals	**-**	**(459)**	**(436)**	**(5,087)**	**(10)**	**(4)**	**-**	**(5,996)**
Transferred to other intangible assets (note 16)	**-**	**-**	**-**	**-**	**-**	**-**	**(213)**	**(213)**
Transfers from CWIP	**-**	**11,062**	**48,915**	**-**	**646**	**513**	**(61,136)**	**-**
Adjustments	**-**	**(5)**	**(57)**	**(2)**	**-**	**-**	**-**	**(64)**
December 31, 2019	**71,506**	**382,592**	**740,727**	**98,746**	**46,555**	**16,914**	**139,809**	**1,496,849**
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
January 1, 2019	**9,574**	**136,481**	**251,213**	**61,816**	**31,676**	**12,568**	**-**	**503,328**
Acquisition of subsidiary (note 37)	**-**	**28,924**	**70,312**	**1,214**	**6,748**	**-**	**-**	**107,198**
Charge for the year	**-**	**14,653**	**37,039**	**9,236**	**2,527**	**793**	**-**	**64,248**
Disposals	**-**	**(209)**	**(434)**	**(5,032)**	**(9)**	**(4)**	**-**	**(5,688)**
December 31, 2019	**9,574**	**179,849**	**358,130**	**67,234**	**40,942**	**13,357**	**-**	**669,086**
NET BOOK VALUE								
December 31, 2019	**61,932**	**202,743**	**382,597**	**31,512**	**5,613**	**3,557**	**139,809**	**827,763**

(All amounts in Saudi Riyals thousands unless otherwise stated)

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation charge for the year has been allocated as follows:

	2019	2018
Cost of revenue	**55,725**	43,210
Administrative expenses	**6,154**	3,059
Selling and distribution expenses	**2,369**	2,120
	64,248	48,389

Certain items of property, plant and equipment are mortgaged to secure the Saudi Industrial Development Fund ("SIDF") loans (note 23.2.3).

Some of the buildings are located on land leased from the Government. The lease contracts are renewable at the option of both the parties (note 24).

Capital work-in-progress mainly comprises building and leasehold improvement and items of plant and machinery in the course of construction and installation for certain Group's subsidiaries.

Adjustments comprise foreign currency translation adjustments.

14. RIGHT-OF-USE ASSETS

The Group leases certain of its premises. The lease terms on the various leases is between 3 years and 25 years.

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

The depreciation expense for the year ended December 31, 2019 for right-of-use assets was SR 3.41 million (December 31, 2018: SR 3.24 million) (note 29).

During the year, a lease was cancelled and the related right-of-use asset amounting SR 0.92 million was derecognised. One new lease was entered into in the current year, which resulted in additions to right-of-use assets of SR 0.59 million (December 31, 2018: Three leases expired and were replaced by new leases for identical underlying assets. In addition, one new lease was entered into in 2018, which resulted in additions to right-of-use assets of SR 3.28 million).

(All amounts in Saudi Riyals thousands unless otherwise stated)

15. GOODWILL

	2019	2018
Cost		
Balance at beginning of the year	**170,101**	170,101
Recognized on acquisition of subsidiary (note 37)	**4,066**	-
Balance at end of the year	**174,167**	170,101
Accumulated impairment		
Balance at beginning of the year	**169,770**	-
Impairment loss for the year	**-**	169,770
Balance at end of the year	**169,770**	169,770
Carrying amount:		
December 31	**4,397**	331

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

	2019	2018
Arnon	**4,066**	-
Inma Pallets	**331**	331
	4,397	331

The Company acquired 100% of the shares of Arnon and goodwill of SR 4.07 million was recognized with effect from January 1, 2019 (note 37).

The Group performed its annual impairment tests as at December 31, 2019 and 2018. The recoverable amounts of the above cash generating units was determined using a value-in-use calculation which incorporates cash flow projections for a five-year period based on budgets approved by the management. A discount rate of 9.98% per annum (2018: 10.49% per annum) was used to discount the future cash flows to present value.

In 2018, significant changes with an adverse effect on Utec–Saudi took place in the local economic and market conditions, consequently management recognised an impairment loss for the full value of goodwill of SR 169.77 million.

Management believes that no impairment is required in the current year.

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

	2019	2018
Increase in discount rate by 0.5%	**(42,624)**	(13,914)
Decrease in discount rate by 0.5%	**48,394**	15,677
Increase in long-term growth rate by 0.5%	**37,278**	4,647
Decrease in long-term growth rate by 0.5%	**(32,831)**	(4,194)

(All amounts in Saudi Riyals thousands unless otherwise stated)

15. GOODWILL (CONTINUED)

Management considers that changes to the discount rate could cause the carrying value of the cash generating units to exceed their recoverable amounts. If the discount rate is increased by 2.52% (December 31, 2018: decreased by 3.76%), the recoverable amounts approximately equal to the carrying values.

16. OTHER INTANGIBLE ASSETS

	Software	Customer relationships	Trade name	Total
COST				
January 1, 2019	**11,210**	**3,881**	**-**	**15,091**
Acquisition of subsidiary (note 37)	**-**	**7,846**	**6,190**	**14,036**
Transferred from property, plant and equipment (note 13)	**213**	**-**	**-**	**213**
Additions	**7**	**-**	**-**	**7**
December 31, 2019	**11,430**	**11,727**	**6,190**	**29,347**
ACCUMULATED AMORTIZATION				
January 1, 2019	**9,884**	**3,881**	**-**	**13,765**
Amortization	**1,292**	**1,569**	**1,238**	**4,099**
December 31, 2019	**11,176**	**5,450**	**1,238**	**17,864**
NET BOOK VALUE				
December 31, 2019	**254**	**6,277**	**4,952**	**11,483**
COST				
January 1, 2018	11,175	3,881	-	15,056
Additions	35	-	-	35
December 31, 2018	11,210	3,881	-	15,091
ACCUMULATED AMORTIZATION				
January 1, 2018	8,322	3,881	-	12,203
Amortization	1,562	-	-	1,562
December 31, 2018	9,884	3,881	-	13,765
NET BOOK VALUE				
December 31, 2018	1,326	-	-	1,326

(All amounts in Saudi Riyals thousands unless otherwise stated)

17. INVENTORIES

	2019	2018
Raw materials	**348,309**	383,109
Finished goods	**114,923**	115,838
Work-in-process	**39,100**	26,767
Goods in transit	**19,153**	27,636
Consumables	**5,178**	2,412
	526,663	555,762
Cost of inventories recognized as an expense during the year	**1,672,321**	1,780,118
Carrying value of inventories held at net realizable value	**8,740**	26,341
Inventory write-downs during the year	**985**	2,856

18. INVESTMENT IN FINANCIAL ASSETS

During the year, the Company participated in an initial public offering on the Saudi Stock Exchange (Tadawul). The investment is principally for the purpose of selling in the short term, i.e. is held for trading. The movement in financial assets at Fair Value Through Profit or Loss ("FVTPL") is set out below:

Financial assets measured at FVTPL	**2019**
Quoted investments	
Additions during the year	**88,556**
Changes in fair value	**4,497**
Disposals during the year	**(44,278)**
Balance at end of the year	**48,775**

Fair values of these equity investments are determined based on the quoted market price available on the Saudi Stock Exchange, which is a Level 1 input in terms of IFRS 13 Fair Value Measurement.

Amounts recognized in consolidated statement of profit or loss and other comprehensive income:

	2019
Gains on disposal of investment in financial assets (note 8)	**8,621**
Fair value gain on financial assets (note 8)	**4,497**
	13,118

(All amounts in Saudi Riyals thousands unless otherwise stated)

19. TRADE AND OTHER RECEIVABLES

	2019	2018
Trade receivables – external parties	**563,018**	548,895
Trade receivables – related parties (note 28)	**74,146**	48,854
Retention receivables	**19,913**	13,334
Less: allowance for doubtful debts	**(67,141)**	(59,766)
Net trade receivables	**589,936**	551,317
Prepayments	**32,577**	27,170
Due from related parties (note 28)	**30,357**	1,219
Advances to suppliers	**27,189**	18,035
Refundable value added tax	**7,880**	3,550
Cash margins for letters of credit	**4,229**	2,604
Amounts due from employees	**3,989**	3,661
Other receivables	**7,969**	3,216
	704,126	610,772
Analyzed between:		
Current assets	**699,896**	605,012
Non-current assets	**4,230**	5,760
	704,126	610,772

Trade receivables

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

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

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

(All amounts in Saudi Riyals thousands unless otherwise stated)

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	Trade receivable – days past due						
	Not past due	**91-180**	**181-360**	**361-720**	**721-1080**	**>1080**	**Total**
December 31, 2019							
Gross carrying amount	**277,917**	**116,051**	**44,561**	**39,434**	**33,193**	**51,862**	**563,018**
ECL rate %	**-**	**0.25**	**11.13**	**21.90**	**36.22**	**64.81**	**10.57**
Lifetime ECL	**-**	**292**	**4,961**	**8,637**	**12,022**	**33,614**	**59,526**
December 31, 2018							
Gross carrying amount	303,558	97,283	49,666	32,935	38,071	27,382	548,895
ECL rate %	0.06	0.96	11.02	39.51	48.09	67.69	10.29
Lifetime ECL	197	937	5,474	13,012	18,309	18,535	56,464

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

	Collectively assessed	**Individually assessed**	**Total**
Balance at January 1, 2019	**56,464**	**3,302**	**59,766**
Acquisition of subsidiary (note 37)	**11,094**	**-**	**11,094**
Net re-measurement of loss allowance	**2,856**	**4,313**	**7,169**
Written-off during the year	**(10,888)**	**-**	**(10,888)**
	59,526	**7,615**	**67,141**

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

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

There are no customers who comprise more than 10% of the total trade receivables balance in the current and prior years.

(All amounts in Saudi Riyals thousands unless otherwise stated)

20. CONTRACT ASSETS

Contract assets comprise the value of work performed in excess of the amount billed as at the period end arising entirely from construction contracts for sale of various bespoke items to customers. Any amount previously recognized as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

The directors of the Company measure the loss allowance on contract assets at an amount equal to lifetime ECL.

21. ISSUED CAPITAL

	2019	2018
60 million ordinary shares of SR 10 each	**600,000**	600,000

22. STATUTORY RESERVE

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

The General Assembly through its resolution dated April 2, 2019, approved to absorb accumulated losses of SR 81.01 million as at December 31, 2018 through transfer from the statutory reserve.

23. AMOUNTS DUE TO BANKS AND LOANS

	2019	2018
23.1 Due to banks	**658,275**	528,288

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

23.2 Loans

	2019	2018
23.2.1 Bank loans	**209,931**	18,631
23.2.2 Other loan	**16,382**	13,315
23.2.3 SIDF loans	**85,355**	6,400
Less: debt arrangement costs on SIDF loans	**(1,507)**	(178)
Total loans	**310,161**	38,168
Less: current portion included in current liabilities	**(40,416)**	(17,667)
	269,745	20,501

23.2.1 The Group has obtained bank loans from local banks which are repayable in quarterly/semi-annual installments. The loans carry interest at prevailing market rates and are secured by promissory notes and corporate guarantees of the Group. The loan's agreements contain covenants requiring maintenance of certain financial ratios. The final repayment is due in 2024.

(All amounts in Saudi Riyals thousands unless otherwise stated)

23. AMOUNTS DUE TO BANKS AND LOANS (CONTINUED)

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

23.2.3 The Group has obtained various loans from the SIDF for the construction and expansion of its concrete and plastic segment plants and the delivery of an ongoing project. These loans are guaranteed by promissory notes, corporate guarantees of the Group and mortgages of property, plant and equipment with a carrying value of SR 414.72 million as at December 31, 2019 (December 31, 2018: SR 53.26 million). The final repayment is due in 2023. The loan agreements contain covenants requiring maintenance of certain financial ratios and other covenants. As at December 31, 2019, SIDF loans related to a Subsidiary of the Group amounting SR 25.82 million were not in compliance with certain covenants. The outstanding balances are presented as current liabilities as at December 31, 2019. Management receives waiver letters from SIDF in the subsequent periods. Had there been no breach of financial covenants, non-current portion of loans would have been increased by SR 21.12 million.

23.3 Analysis of change in amounts due to banks and loans for the year ended December 31, 2019 is as follows:

	Amounts due to banks	**Loans**	**Total**
Balance at the beginning of the year	528,288	38,168	566,456
Acquisition of subsidiary (note 37)	225,020	122,025	347,045
Amounts obtained	2,396,706	251,631	2,648,337
Amounts repaid	(2,491,739)	(102,119)	(2,593,858)
Effect of exchange rate changes	-	80	80
Debt arrangement costs on SIDF loans	-	376	376
Balance at the end of the year	**658,275**	**310,161**	**968,436**

24. LEASE LIABILITIES

	2019	2018
Total lease liabilities	**23,942**	26,568
Less: current portion included in current liabilities	**(2,660)**	(3,180)
	21,282	23,388

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

	2019	2018
Within one year	**3,846**	4,026
Greater than one year to five years	**9,814**	11,347
Over five years	**16,047**	17,139
	29,707	32,512

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

25. EMPLOYEE DEFINED BENEFIT LIABILITIES

	2019	2018
Balance at the beginning of the year	**61,001**	69,444
Acquisition of subsidiary (note 37)	**7,340**	-
Current service cost (note 11)	**8,534**	8,809
Interest cost (note 11)	**3,136**	2,181
Paid during the year	**(8,356)**	(7,976)
Re-measurement (gains) losses arising from actuarial changes in:		
Financial assumptions	**8,350**	(10,145)
Demographic assumptions	**-**	4
Experience adjustments	**(225)**	(1,316)
Balance at the end of the year	**79,780**	61,001

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

Movements in the employee defined benefit obligations arising from current service cost and interest cost are recognized in profit or loss. However, re-measurement gains or losses arising from changes in actuarial assumptions are recognized in other comprehensive income. The principal assumptions used for the purpose of the actuarial valuations were as follows:

	2019	2018
Discount rate	**3.15%**	4.50%
Rate of salary increases	**3.00%**	3.00%
Rate of employee turnover	**Moderate**	Moderate
Mortality rates (WHO)	**SA16-75%**	SA16-75%

The weighted average duration of the defined benefit obligation is 10.20 years (2018: 9.01 years).

The actuary decreased the discount rate in 2019 to reflect the changes in applicable market yields.

Sensitivity analyses

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

	2019	2018
Increase in discount rate by 0.5%	**(4,009)**	(3,669)
Decrease in discount rate by 0.5%	**4,383**	1,975
Increase in rate of salary increase by 0.5%	**4,163**	1,917
Decrease in rate of salary increase by 0.5%	**(3,847)**	(3,638)

(All amounts in Saudi Riyals thousands unless otherwise stated)

26. TRADE AND OTHER PAYABLES

	2019	2018
Trade payables – external parties	**360,260**	226,423
Trade payables – related parties (note 28)	**16,529**	16,261
Employee related accruals	**18,440**	15,217
Other payables – related parties (note 28)	**6,060**	1,031
Accrued finance charges	**5,026**	4,463
Accrued commission	**2,143**	2,342
Accrued directors' compensation	**2,141**	1,630
Warranty provisions	**1,019**	1,193
Other payables and accruals	**22,159**	25,074
	433,777	293,634

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

The movement in the warranty provision is as follows:

	2019	2018
Balance at the beginning of the year	**1,193**	2,203
Raised during the year	**227**	312
Reversed during the year	**-**	(574)
Utilized during the year	**(401)**	(748)
Balance at the end of the year	**1,019**	1,193

27. CONTRACT LIABILITIES

Contract liabilities comprise the following:

	2019	2018
Advances from customers	**30,186**	36,340
Billings in excess of revenue recognized	**3,487**	3,532
	33,673	39,872

Contract liabilities of SR 25.65 million (December 31, 2018: SR 20.10 million) raised in the prior year were recognized as revenue in the current year. All of this amount related to the sale of goods. There was no revenue recognized in the current reporting period that related to performance obligations that were satisfied in a prior year.

28. RELATED PARTY INFORMATION

Related parties mainly represent shareholders, affiliates, associates, subsidiary companies, key personnel and entities controlled or significantly influenced by such parties. During the year, the Group mainly had transactions with the following related parties:

Name	Relationship
Al Fozan Group of Companies	Shareholder/ Affiliate
Al Muhaidib Group of Companies	Shareholder/ Affiliate

(All amounts in Saudi Riyals thousands unless otherwise stated)

28. RELATED PARTY INFORMATION (CONTINUED)

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its other related parties are disclosed below:

Nature of transactions	2019	2018
Revenue	**248,626**	173,107
Acquisition of a subsidiary (note 37)	**191,000**	-
Compensation against provision for inventories (note 37)	**27,955**	-
Purchases	**19,581**	41,766
Royalties (note 6)	**526**	561
Operating lease charges	**385**	100
Management fee and commission paid	**286**	-

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

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

	2019	2018
Trade receivables (note 19)	**74,146**	48,854
Non-trade receivables (note 19)	**30,357**	1,219
Trade payables (note 26)	**16,529**	16,261
Non-trade payables (note 26)	**6,060**	1,031

Non-trade receivables include an amount of SR 27.96 million for compensation against provision for inventories of the acquired subsidiary from its previous shareholder.

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

During the year, short-term and long-term employment benefits to the Company's key management personnel amounted to SR 4.42 million (December 31, 2018: SR 3.91 million).

29. LEASES

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

	2019	2018
Depreciation expense on right-of-use assets (note 14)	**3,408**	3,244
Finance charges on lease liabilities (note 9)	**901**	876
Expenses relating to short-term and low value leases	**9,241**	6,131

The Group also has certain leases with lease terms of 12 months or less and leases with low value. The Group applies the ‘short-term lease’ and ‘lease of low-value assets’ recognition exemptions for these leases. The Group does not have any leases which contain variable lease payment terms.

(All amounts in Saudi Riyals thousands unless otherwise stated)

30. CAPITAL COMMITMENTS AND CONTINGENCIES

The Group had capital commitments of SR 14.81 million (December 31, 2018: SR 15.86 million) and contingencies in the form of letters of credit and guarantee of SR 540.88 million (December 31, 2018: SR 454.79 million) at the reporting date.

31. SEGMENT INFORMATION

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

- Metal and Wood
- Plastic
- Electrical
- Concrete
- Head office

Segment revenues and results

	2019		2018	
Segment	**Revenue**	**Profit (loss) for the year**	Revenue	Profit (loss) for the year
Metal and Wood	**1,463,373**	**45,756**	1,537,121	26,121
Plastic	**310,061**	**24,414**	-	-
Electrical	**261,029**	**(50,031)**	262,139	(234,783)
Concrete	**200,770**	**3,875**	154,195	(4,917)
Head office	**-**	**(2,271)**	-	(10,744)
	2,235,233	**21,743**	1,953,455	(224,323)

	December 31, 2019		December 31, 2018	
Segment	**Assets**	**Liabilities**	Assets	Liabilities
Metal and Wood	**833,167**	**488,170**	952,028	566,205
Plastic	**622,096**	**461,425**	-	-
Electrical	**404,169**	**292,338**	492,163	294,215
Concrete	**293,665**	**190,448**	264,923	142,358
Head office	**99,807**	**123,719**	1,521	11,759
	2,252,904	**1,556,100**	1,710,635	1,014,537

Segment revenues reported represent revenue generated from both external customers and related parties. There were no significant inter-segment revenues during the years 2019 and 2018.

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

The plastic segment information includes compensation against the provision for inventories (notes 28 and 37).

In 2018, impairment losses of SR 169.77 million and SR 19.40 million were recognized in respect of goodwill and property, plant and equipment respectively, attributable to the Electrical segment (note 15).

No single customer contributed 10 percent or more to the Group’s revenue in either 2019 or 2018.

(All amounts in Saudi Riyals thousands unless otherwise stated)

32. SUBSIDIARIES

Details of the Group's direct and indirect subsidiaries as at December 31, 2019 and 2018 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and operation	Effective ownership interest and voting power	
			2019 %	2018 %
Bawan Wood	Manufacturing of wood products	Saudi Arabia	**95.00**	95.00
United Wood and Metal	Manufacturing of wood/metal products	Saudi Arabia	**95.00**	95.00
Al-Raya Wood Works Establishment	Manufacturing of wood products	United Arab Emirates (UAE)	**95.00**	95.00
Al-Raya Company for Wood Works	Manufacturing of wood products	Kuwait	**95.00**	95.00
Inma Pallets	Manufacturing of wood products	Saudi Arabia	**95.00**	95.00
ULLS (dormant in 2018)	Logistic services	Saudi Arabia	**95.00**	95.00
Bawan Metal	Manufacturing of metal products	Saudi Arabia	**100.00**	100.00
BCBC	Liquidated in 2019/ dormant	Saudi Arabia	**-**	100.00
Bawan Engineering	Intermediate holding company	Saudi Arabia	**100.00**	100.00
Utec–Saudi	Manufacturing of electrical products	Saudi Arabia	**85.50**	85.50
Utec–Algeria	Manufacturing of electrical products	Algeria	**41.90**	41.90
USSG	Manufacturing of electrical products	Saudi Arabia	**85.50**	85.50
Bawan Electric	Manufacturing of electrical products	Saudi Arabia	**100.00**	100.00
Bawan Mechanical	Under liquidation	Saudi Arabia	**100.00**	100.00
Arnon (acquired effective January 1, 2019)	Manufacturing of plastic packaging and insulation products	Saudi Arabia	**100.00**	-
Bina Holding	Intermediate holding company	Saudi Arabia	**56.75**	56.75
Bina Ready-Mix	Manufacturing of concrete products	Saudi Arabia	**56.75**	56.75
Bina Precast	Manufacturing of concrete products	Saudi Arabia	**52.89**	52.89
Al-Ahliah Transport Company Limited	Dormant	Saudi Arabia	**56.75**	56.75
Total Building Company	Dormant	Saudi Arabia	**56.75**	56.75

(All amounts in Saudi Riyals thousands unless otherwise stated)

32. SUBSIDIARIES (CONTINUED)

32.1 Composition of the group

Information about the composition of the Group is as follows:

Principal activity	**Country of incorporation and operation**	**Number of wholly-owned subsidiaries**	
		2019	2018
Manufacturing of metal products	Saudi Arabia	**1**	1
Manufacturing of plastic packaging products	Saudi Arabia	**1**	-
Under liquidation	Saudi Arabia	**1**	2
Intermediate holding company	Saudi Arabia	**1**	1
Manufacturing of electrical products	Saudi Arabia	**1**	1
		5	5

Principal activity	**Country of incorporation and operation**	**Number of non-wholly-owned subsidiaries**	
		2019	2018
Manufacturing of wood/metal products and logistic services	Saudi Arabia	**4**	3
	UAE	**1**	1
	Kuwait	**1**	1
Intermediate holding company	Saudi Arabia	**1**	1
Manufacturing of electrical products	Saudi Arabia	**2**	2
	Algeria	**1**	1
Manufacturing of concrete products	Saudi Arabia	**2**	2
Dormant	Saudi Arabia	**2**	3
		14	14

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

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests as at December 31, 2019:

Name of subsidiary	**Proportion of ownership interests and voting rights held by non-controlling interests**	**(Loss) profit allocated to non-controlling interests**	**Accumulated non-controlling interests**
Utec–Saudi and its subsidiary	**14.5%**	**(6,197)**	**28,739**
Bina Holding and its subsidiaries	**43.25%**	**1,938**	**34,555**
Individually immaterial subsidiaries with non-controlling interests		**(630)**	**7,336**
		(4,889)	**70,630**

(All amounts in Saudi Riyals thousands unless otherwise stated)

32. SUBSIDIARIES (CONTINUED)

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

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

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interests	(Loss) profit allocated to non-controlling interests	Accumulated non-controlling interests
Utec–Saudi and its subsidiary	14.5%	(4,890)	33,341
Bina Holding and its subsidiaries	43.25%	(2,032)	44,161
Individually immaterial subsidiaries with non-controlling interests		952	11,981
		(5,970)	89,483

The subsidiaries individually detailed above are incorporated and operate in Saudi Arabia, except for Utec-Algeria.

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

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

Utec–Saudi and its Subsidiary Consolidated Summarized Statement of Financial Position

	2019	2018
Non-current assets	**109,283**	99,465
Current assets	**270,427**	337,502
Non-current liabilities	**29,548**	25,266
Current liabilities	**221,071**	247,586
Equity attributable to owners of the company	**117,371**	150,550
Non-controlling interests	**11,720**	13,565

(All amounts in Saudi Riyals thousands unless otherwise stated)

32. SUBSIDIARIES (CONTINUED)

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

Utec–Saudi and its Subsidiary Summarized Statement of Profit or Loss and Other Comprehensive Income

	2019	2018
Revenue	**170,430**	180,707
Expenses	**(203,471)**	(210,671)
Loss for the year	**(33,041)**	(29,964)
Loss attributable to owners of the company	**(31,250)**	(28,844)
Loss attributable to non-controlling interests	**(1,791)**	(1,120)
Loss for the year	**(33,041)**	(29,964)
Other comprehensive (loss) income attributable to owners of the company	**(1,747)**	2,204
Other comprehensive loss attributable to non-controlling interests	**(54)**	(452)
Other comprehensive (loss) income for the year	**(1,801)**	1,752

Utec–Saudi and its Subsidiary Summarized Statement of Cash Flows

	2019	2018
Cash flows (outflows) from operating activities	**6,315**	(61,104)
Cash outflows from investing activities	**(16,962)**	(13,344)
Cash flows from financing activities	**4,999**	74,059
Net cash outflows for the year	**(5,648)**	(389)

Bina Holding and its Subsidiaries Summarized Statement of Financial Position

	2019	2018
Non-current assets	**115,391**	118,029
Current assets	**178,274**	139,792
Non-current liabilities	**74,139**	15,558
Current liabilities	**127,296**	126,511
Equity attributable to owners of the company	**87,340**	111,350
Non-controlling interests	**4,890**	4,402

(All amounts in Saudi Riyals thousands unless otherwise stated)

32. SUBSIDIARIES (CONTINUED)

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

Bina Holding and its Subsidiaries Summarized Statement of Profit or Loss and Other Comprehensive Income

	2019	2018
Revenue	**200,770**	154,195
Expenses	**(196,895)**	(159,081)
Profit (loss) for the year	**3,875**	(4,886)
Profit (loss) attributable to owners of the company	**3,418**	(4,861)
Profit (loss) attributable to non-controlling interests	**457**	(25)
Profit (loss) for the year	**3,875**	(4,886)
Other comprehensive (loss) income attributable to owners of the company	**(1,280)**	1,112
Other comprehensive (loss) income attributable to non-controlling interests	**(65)**	928
Other comprehensive (loss) income for the year	**(1,345)**	2,040

Bina Holding and its Subsidiaries Summarized Statement of Cash Flows

	2019	2018
Cash outflows from operating activities	**(38,974)**	(4,039)
Cash (outflows) flows from investing activities	**(9,756)**	12,177
Cash flows (outflows) from financing activities	**59,015**	(11,843)
Net cash flows (outflows) for the year	**10,285**	(3,705)

33. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-cash transactions include the following:

	2019	2018
Right-of-use asset recognised on adoption of IFRS 16	**1,978**	23,587
Lease liabilities recognised on adoption of IFRS 16	**1,961**	26,665
Lease liabilities derecognised	**1,245**	-
Right-of-use asset derecognised	**922**	-
Property, plant and equipment transferred to other intangible assets	**213**	-

(All amounts in Saudi Riyals thousands unless otherwise stated)

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table combines information about:

- classes of financial instruments based on their nature and characteristics; and
- the carrying amounts of financial instruments;

Categories of financial instruments

	2019	2018
Financial assets		
Financial assets measured at FVTPL		
Investment in financial assets	**48,775**	-
Amortized cost		
Cash and cash equivalents	**45,899**	42,637
Trade and other receivables	**644,360**	565,567
Contract assets	**34,659**	26,896
Financial liabilities		
Amortized cost		
Trade and other payables	**432,758**	292,441
Amounts due to banks	**658,275**	528,288
Loans	**310,161**	38,168
Lease liabilities	**23,942**	26,568

Fair values of financial instruments

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorized. It does not include fair value information for financial assets and financial liabilities not measured at fair value.

December 31, 2019	**Carrying value**	**Fair value total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservabl e inputs (Level 3)**
Financial assets measured at FVTPL					
Quoted equity investments	**48,775**	**48,775**	**48,775**	**-**	**-**

There were no transfers between the levels of fair value hierarchies during the year.

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

35. FINANCIAL RISK MANAGEMENT

Capital management

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

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Market risk
Market risk is the risk from changes in market prices, such as foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

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

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

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

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would have decreased or increased by SR 3.62 million (December 31, 2018: SR 2.83 million). The Group's exposure to interest rates has increased during the year primarily as a result of an increase in amounts due to banks.

(All amounts in Saudi Riyals thousands unless otherwise stated)

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate and liquidity risks management (continued)

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

December 31, 2019	**Interest rate %**	**Within one year**	**One year to five years**	**Total**
Loans	**3.77%**	**42,647**	**283,937**	**326,584**
Amounts due to banks	**3.60%**	**670,124**	**-**	**670,124**
Trade and other payables	**Interest free**	**432,758**	**-**	**432,758**
Total		**1,145,529**	**283,937**	**1,429,466**

December 31, 2018				
Loans	4.07%	18,354	20,664	39,018
Amounts due to banks	4.03%	538,208	-	538,208
Trade and other payables	Interest free	292,441	-	292,441
Total		849,003	20,664	869,667

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Potential concentrations of credit risk consist principally of trade receivables, amounts due from a related party and short-term cash investments. Details of how credit risk relating to trade receivables is managed are disclosed in note 19. The amounts due from a related party are monitored and provision is made, where necessary, for any irrecoverable amounts. Short-term cash investments are only placed with banks with a high credit rating. The Group does not hold any collateral to cover the credit risk associated with its financial assets.

36. RETIREMENT BENEFIT INFORMATION

The Group makes contributions for a defined contribution retirement benefit plan to the General Organization for Social Insurance in respect of its Saudi employees. The total amount expensed during the year in respect of this plan was SR 6.44 million (December 31, 2018: SR 5.20 million). The Group also has a defined benefit plan (note 25).

(All amounts in Saudi Riyals thousands unless otherwise stated)

37. ACQUISITION OF SUBSIDIARY

Acquisition of Arnon Plastic Industries Company

Effective January 1, 2019, the Company acquired 100% of the shares of Arnon from a related party for a total consideration of SR 191.00 million, thereby obtaining control of Arnon. Arnon is engaged in the production of flexible packaging and insulation products serving the food packaging and building materials industries and qualifies as a business as defined in IFRS 3. Arnon was acquired for growth of the Group's operations. Acquisition-related costs amounted to SR 3.00 million, out of which SR 2.94 million were expensed during the prior year.

The carrying value of the identifiable assets acquired and liabilities assumed of Arnon amounted to SR 573.91 million and SR 436.62 million respectively. Goodwill of SR 4.07 million was recognized that represented the excess consideration paid over the net book value of net identifiable assets acquired after allocation of SR 49.64 million to adjust the net book values of net assets acquired to their fair values, of which SR 35.61 million was allocated to property, plant and equipment and SR 14.03 million was allocated to identifiable intangible assets. Identifiable intangible assets comprise customer relationships and the trade name.

The fair values have been determined on the basis of the valuer's professional knowledge and belief, taking into account the prevailing market conditions, current conditions of assets and the sources of market information. The valuations prepared by the independent valuer, which conform to International Valuation Standards, were arrived at by reference to the open market value models.

The purchase price allocation exercise was carried out by an independent third party on the basis of the independent expert's valuation report.

Legal formalities related to the acquisition of Arnon were completed during the year and non-objection approval from the General Authority for Competition was obtained.

The Company holds a bank guarantee of 15% of the consideration paid for acquisition of subsidiary.

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value
Cash and cash equivalents	**2,748**
Trade and other receivables	**103,819**
Inventories and spare parts	**141,394**
Property, plant and equipment (note 13)	**361,558**
Intangible assets: customer relationships (note 16)	**7,846**
Intangible assets: trade name (note 16)	**6,190**
Loans (note 23.3)	**(122,025)**
Due to banks (note 23.3)	**(225,020)**
Loan from a shareholder	**(371)**
Employee defined benefit liabilities (note 25)	**(7,340)**
Trade and other payables	**(80,465)**
Zakat payable (note 10.1)	**(1,400)**
Total identifiable assets acquired and liabilities assumed	**186,934**
Goodwill (note 15)	**4,066**
Total consideration	**191,000**

(All amounts in Saudi Riyals thousands unless otherwise stated)

37. ACQUISITION OF SUBSIDIARY (CONTINUED)

Acquisition of Arnon Plastic Industries Company (continued)

Net cash outflow arising on acquisition:

Cash consideration	**191,000**
Cash and cash equivalents	**(2,748)**
Total consideration	**188,252**

The purchase consideration of SR 191.00 million for the acquisition of Arnon was paid fully in cash.

The goodwill of SR 4.07 million comprises the value of expected synergies arising from the acquisition and workforce, which is not separately recognised. Workforce is not an identifiable asset to be recognised separately from goodwill so the value attributable to workforce is subsumed into goodwill.

The previous shareholder agreed to compensate the Company by an amount of SR 27.96 million against the provision for inventories recorded in current year (notes 7 and 28).

Acquired trade receivables
The fair value of acquired trade receivables was SR 83.68 million. The gross contractual amount for trade receivables due was SR 94.77 million and the impairment allowance for doubtful trade receivables amounted to SR 11.09 million.

Revenue and profit contribution
The acquired business contributed revenues of SR 310.06 million and net profit of SR 24.41 million to the Group between the date of acquisition and the reporting date.

These amounts have been calculated using the subsidiary's results and adjusting them for the due compensation against the provision for inventories.

38. EVENTS SUBSEQUENT TO THE REPORTING DATE

On February 11, 2020, one of the Plastic sector factories caught fire which resulted in damage to assets having a net book value of SR 19.00 million. The Plastic sector has insurance coverage of SR 42.36 million against a loss caused by such an incident and to compensate for losses due to such an interruption of business. As of the date of the issuance of these consolidated financial statements, the insurance claim was still under process.

Subsequent to reporting period, legal formalities related to Bawan Mechanical liquidation were completed on March 15, 2020.

The existence of novel Coronavirus disease (COVID-19) was confirmed in early 2020 and has spread globally causing disruptions to businesses and economic activity. The Group management considers this outbreak to be a non-adjusting event after the reporting period. As the situation is fluid and rapidly evolving, the management do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group.

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

39. DIVIDENDS

In 2018, dividends of SR 0.40 per share totaling SR 24 million were declared, out of which SR 23.97 million were paid to the ordinary shareholders in 2018.

40. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved on March 22, 2020.