NASEEJ INTERNATIONAL TRADING COMPANY

(FORMERLY KNOWN AS AL SORAYAI TRADING AND INDUSTRIAL GROUP COMPANY)

(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' FOR
THE YEAR ENDED DECEMBER 31, 2020

NASEEJ INTERNATIONAL TRADING COMPANY
(FORMERLY KNOWN AS AL SORAYAI TRADING AND INDUSTRIAL GROUP COMPANY)
(A Saudi Joint Stock Company)

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MOORE

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS
NASEEJ INTERNATIONAL TRADING COMPANY
(FORMERLY KNOWN AS AL SORAYAI TRADING AND
INDUSTRIAL GROUP COMPANY)
(A SAUDI JOINT STOCK COMPANY)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Naseej International Trading Company (Formerly known as Al Sorayai Trading and Industrial Group Company) and, its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and, notes 1 to 31 to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We 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 consolidated financial statements and we have fulfilled our 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 those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current year. 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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS
NASEEJ INTERNATIONAL TRADING COMPANY
(FORMERLY KNOWN AS AL SORAYAI TRADING AND INDUSTRIAL GROUP COMPANY)
(A SAUDI JOINT STOCK COMPANY)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

<table>
<tr><td colspan="2">Key audit matters (continued)</td></tr>
<tr><td colspan="2">Revenue recognition</td></tr>
<tr><td>Key audit matter</td><td>How the key audit matter was addressed in our audit</td></tr>
<tr><td>The Group revenue primarily consists of sales of flooring and non-flooring items which includes carpets, yarn, blanket and fabric, rugs and important flooring. As at December 31, 2020, the Group recognized total revenue of SR. 192.2 million (2019: SR 232.3 million).

Revenue recognition has been identified as a key audit matter due to the following:

• Significant volume of transactions;
• The auditing professional standards presume that there is significant risk related to revenue recognition.</td><td>We perform the following procedure in relation to revenue recognition:

• Evaluating the design and implementation, and testing the operating effectiveness of relevant
• Testing of IT general controls and major IT applications controls related to revenue recognition;
• Inspected sales transactions taking place at either side of year-end to assess whether revenue was recognized in the correct period; and
• Performing substantive test of details and analytical procedures.</td></tr>
<tr><td colspan="2">The accounting policy for revenue is outlined in Note 3.8 and a breakdown of revenue is presented in Note 20.</td></tr>
</table>

<table>
<tr><td colspan="2">Trade receivables</td></tr>
<tr><td>Key audit matter</td><td>How the key audit matter was addressed in our audit</td></tr>
<tr><td>As at December 31, 2020 the gross trade receivable amounts to SR 155.9 million (2019: SR 148.1 million) against which impairment for doubtful debts amounts to SR 68.8 million (2019: SR 52.9 million) was provided.

We considered this as a key audit matter since it involve management's assumptions and estimates over recoverability of long outstanding balances, as well as the materiality of the amount involve.</td><td>We perform following procedures in relation to trade receivables

• Obtained list of debtors as at year end and distinguish balances with the related parties.
• Checked additions of the list of trade receivable balances.
• Grossed up trade receivable for material credit balances and obtained explanation for such credit balances.
• Obtain and review an aged trade debtors listing and obtain explanations for substantial overdue balances.
• Confirm that credit control policies specified by management are applied to the collection of all trade debtor balances.</td></tr>
</table>

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REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters (continued)	
Trade receivables (continued)	
Key audit matter	***How the key audit matter was addressed in our audit***
	• Discuss recoverability of debtors with management and consider the need for a doubtful debt provision or bad debt write off. • Undertake confirmation of trade debtors, carry out necessary follow up procedures and alternative tests where there is no response. Assess implications of reconciling items. • Compare the aged listing of debtors with that of previous periods and note any significant changes in the ratio of overdue accounts. • Check allocation of cash received after date to specific transactions within the period end balance or subsequent transactions where period end balance has been cleared.
The accounting policy for trade receivables is outlined in Note 3.6 and a breakdown is presented in Note 10.	
Impairment of property, plant and equipment	
Key audit matter	***How the key audit matter was addressed in our audit***
The management conducts impairment tests to assess the recoverability of the carrying value of the property, plant and equipment whenever impairment indicator exits. Management has reviewed, the impairment of operating fixed assets as at the end of the year to assess whether there is any indication of any possible impairment in the value. This review did not result in an impairment of the Group's asset. At the end of the year, the management performed an internal review of an impairment based on the last available valuation report, key performance indicators (KPIs) and projected cash flows. These techniques includes various assumptions to determine the expected recoverability of the assets.	Our audit procedures to address the risk for impairment of property, plant and equipment included; • Assessment for the indications of impairment. • Evaluating the independence of the external evaluator and reading the terms of the contract to determine whether there are any matters that may affect the objectivity of the resident or may impose restrictions on the scope of his work. • Assessed the methodology used by the management to determine the recoverable value based on the value in use of the assets and compared it to that required by the IAS 36.

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REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters (continued)	
Impairment of property, plant and equipment (continued)	
Key audit matter	***How the key audit matter was addressed in our audit***
We considered this as a key audit matter since it's involve management's assumptions and estimates as well as materiality of the amount involved. Moreover, the assessment of recoverable amount under the value in use basis is complex and require considerable judgement on part of the management.	• Obtained budgeted cash flows and forecast from the management for all line of the businesses. Moreover, management doesn't have any intention to close or discontinue any of his line of business.
Refer to note 3.12 of the consolidated financial statements for the accounting policy and note 5 for related disclosures.	

Carrying value of inventory	
Key audit matter	***How the key audit matter was addressed in our audit***
As at December 31, 2020, the Group's gross inventory balance was SR. 169.2 million (2019: SR 203.5 million), against which provision for slow-moving and obsolete inventory was provided SR 18.9 million (2019 SR 39.4 million). We have identified inventory existence and costing as an area requiring particular audit attention due to the following: • The Group has significant levels of inventory at year end. • Inventories are held at the lower of cost and net realizable value determined using the weighted average cost method. The determination of whether the inventory will be realized for a value less than cost requires management to exercise judgment and apply assumptions based on the most reliable evidence at the time the estimates are made. Management undertake the following procedures for determining the level of write down required.	Our audit procedures to address the risk of material misstatement relating to inventory existence included: • Attending the physical inventory count at the year end and assessing the adequacy of controls over the existence of inventory; and • Reviewing the Group's process of reflecting the results of physical inventory taking into the accounting books of records. With respect to determination of cost of inventory, our audit procedures included: • For purchased items of inventory including raw materials and spare parts, reviewing the Group's procurement process and testing supporting documentation on a sample basis; and • For work in progress and finished goods, assessing the reasonableness of Group's costing methods and processes through a mix of control and substantive procedures.

INDEPENDENT AUDITOR'S REPORT

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REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters (continued)	
Carrying value of inventory (continued)	
Key audit matter	***How the key audit matter was addressed in our audit***
• Use inventory aging reports together with historical trends to estimate the likely future salability of slow and older inventory; • For inventory aged, management write down inventory based on an applied percentage. The percentages are derived from historical levels of write down; • Perform line-by-line analysis of remaining inventory to ensure it is stated at the lower of cost and net realizable value and a specific write down is recognized if required.	• With respect to determination of NRV of inventory, our audit procedures included: • Testing that ageing report prepared by management correctly aged inventory items by matching a sample of aged inventory items to the last recorded invoices; • On a sample basis we tested the net realizable value of inventory item to recent selling prices • Review the accounting policy applied by the Group and ensure that it conforms to the policy included in the financial statements. • We re-performed the calculation of the p • Provision for slow moving items.
Refer to note 3.14 of the consolidated financial statements for the accounting policy and note 9 for related disclosures.	

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on 30 March 2020.

Other information

Other information consists of the information included in the Group's 2020 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report.

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

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

INDEPENDENT AUDITOR'S REPORT

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REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Responsibilities of management and Those Charged With Governance ("TCWG") for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association 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, i.e. the Board of Directors, 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

INDEPENDENT AUDITOR'S REPORT

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REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

MOORE

El Sayed El Ayouty & Co.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS
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REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

FOR EL SAYED EL AYOUTY & CO.

السيد العيوطي وشركاه
محاسبون ومراجعون قانونيون
س.م رقم ٤٠٣٠٢٩١٢٤٥
EL SAYED EL AYOUTY & CO.
CERTIFIED PUBLIC ACCOUNTANTS
P.R. 4030291245

Jeddah: March 27, 2021
Sha'ban 14, 1442H.

Mohamed El Ayouty
Certified Public Accountant
License No. (211)

NASEEJ INTERNATIONAL TRADING COMPANY
(FORMERLY KNOWN AS AL SORAYAI TRADING AND INDUSTRIAL GROUP COMPANY)
(A Saudi Joint Stock Company)

Consolidated statement of financial position as at December 31, 2020

(All amounts in Saudi Riyals Thousands unless otherwise stated)

	Notes	As at December 31, 2020	2019
ASSETS			
Non-current assets			
Property, plant and equipment – net	5	**175,547**	193,097
Intangible assets – net	6	**1,142**	1,998
Investment in associates and joint venture	7	**14,733**	15,142
Right-of-use assets	8	**24,217**	27,112
Total non-current assets		**215,639**	237,349
Current assets			
Inventories – net	9	**150,264**	164,065
Trade receivables – net	10	**87,155**	95,276
Due from related parties	11	**-**	4,214
Prepayments and other receivables – net	12	**19,992**	13,913
Cash and cash equivalents	13	**38,493**	4,531
Total current assets		**295,904**	281,999
TOTAL ASSETS		**511,543**	519,348
EQUITY HOLDERS' EQUITY AND LIABILITIES			
Equity			
Share capital		**61,632**	65,500
Accumulated losses		**(6,199)**	(32,405)
Total shareholders' equity		**55,433**	33,095
Non-current liabilities			
Loans and borrowings - non current	14	**208,149**	154,557
Right-of-use obligations - non current	8	**19,748**	21,907
Employees' defined benefit obligations	15	**20,025**	21,496
Derivative financial instruments	16	**2,716**	2,648
Total non-current liabilities		**250,638**	200,608
Current liabilities			
Share of losses of investments in associate and joint venture more than cost	7	**-**	455
Loans and borrowings – current	14	**103,000**	167,556
Right-of-use obligations – current	8	**3,948**	4,240
Trade payables	17	**39,557**	44,079
Due to related parties	11	**21,413**	31,059
Other payables	18	**33,122**	22,004
Zakat payable	19	**4,432**	16,252
Total current liabilities		**205,472**	285,645
Total liabilities		**456,110**	486,253
TOTAL EQUITY AND LIABILITIES		**511,543**	519,348

The annexed notes from 1 to 31 form an integral part of these financial statements.

NASEEJ INTERNATIONAL TRADING COMPANY
(FORMERLY KNOWN AS AL SORAYAI TRADING AND INDUSTRIAL GROUP COMPANY)
(A Saudi Joint Stock Company)

Consolidated statement of profit & loss and other comprehensive income
(All amounts in Saudi Riyals Thousands unless otherwise stated)

	Notes	For the year ended December 31, 2020	2019
Revenue – net	20	**192,201**	232,351
Cost of sales	21	**(169,714)**	(247,196)
GROSS PROFIT / (LOSS)		**22,487**	(14,845)
Selling and distribution expenses	22	**(33,994)**	(39,528)
General and administration expenses	23	**(22,061)**	(18,803)
Impairment of current assets – net		**(46,105)**	(45,745)
Other income – net	24	**19,916**	29,463
OPERATING LOSS		**(59,757)**	(89,458)
Loss due to change in fair value of derivatives		**(68)**	(1,100)
Share of losses of investments in associates and joint venture	7	**(409)**	(670)
Finance cost		**(20,738)**	(22,202)
LOSS BEFORE ZAKAT		**(80,972)**	(113,430)
Zakat expenses	19	**(2,445)**	(2,777)
LOSS FOR THE YEAR		**(83,417)**	(116,207)
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified in subsequent date to profit or loss (net after zakat)			
Gain / (Loss) on revaluation of employees defined benefit obligations.	15	**488**	(1,747)
Net income of items that will not be reclassified in subsequent date to profit or loss (net after zakat)		**488**	(1,747)
TOTAL OTHER COMPREHENSIVE INCOME / (LOSS)		**488**	(1,747)
TOTAL OTHER COMPREHENSIVE LOSS (NET) AFTER ZAKAT		**(82,929)**	(117,954)
LOSS PER SHARE	25	**(5.32)**	(6.82)

The annexed notes from 1 to 31 form an integral part of these financial statements.

NASEEJ INTERNATIONAL TRADING COMPANY
(FORMERLY KNOWN AS AL SORAYAI TRADING AND INDUSTRIAL GROUP COMPANY)
(A Saudi Joint Stock Company)

Consolidated statement of changes in shareholders' equity for the year ended
(All amounts in Saudi Riyals Thousands unless otherwise stated)

	Note	Share Capital	Accumulated losses	Total share holders' equity
As at 1 January 2019		225,000	(74,948)	150,052
Effect of IFRS 16		-	997	997
As at January 2019 (restated)		225,000	(73,951)	151,049
Net loss for the year		-	(116,207)	(116,207)
Loss on revaluation of employees' defined benefit obligations	15	-	(1,747)	(1,747)
Reduction in share capital		(159,500)	159,500	-
As at 31 December 2019		**65,500**	**(32,405)**	**33,095**
As at 1 January 2020		65,500	(32,405)	33,095
Increase in share capital		112,660	-	112,660
Cost of increase in share capital		-	(7,393)	(7,393)
Net loss for the year		-	(83,417)	(83,417)
Gain on revaluation of employees' defined benefit obligations	15	-	488	488
Reduction in share capital		(116,528)	116,528	-
As at 31 December 2020		**61,632**	**(6,199)**	**55,433**

The annexed notes from 1 to 31 form an integral part of these financial statements.

Consolidated statement of cash flows
(All amounts in Saudi Riyals Thousands unless otherwise stated)

	Note	For the year ended December 31, 2020	2019
OPERATING ACTIVITIES			
Loss before zakat		**(80,972)**	(113,430)
Adjustments for non-cash items:			
Depreciation	5	**16,629**	27,917
Amortization on intangibles	6	**856**	856
Provision for employees' defined benefit obligations	15	**2,815**	4,335
Financial charges		**20,738**	22,202
Impairment on current assets	9&10	**45,653**	45,745
Amortization of right to use assets		**2,895**	2,108
Gain on disposal of property, plant and equipment		**(1,875)**	(14,555)
Other income		**-**	(14,250)
Reversal of excess zakat provision		**(10,654)**	-
Share of profit from an associate and joint ventures	7	**409**	670
Loss due to change in fair value of derivatives financial instruments	16	**68**	1,100
Operating loss before working capital changes		**(3,438)**	(37,302)
Working capital changes:			
Inventories – net		**(14,899)**	46,105
Trade receivables, prepayments and other receivables – net		**(14,911)**	59,765
Due from related parties		**4,214**	5,942
Trade payables and other payables		**6,596**	(42,500)
Loss of investment in associates		**(455)**	-
Right-to-use obligation		**(2,451)**	-
Due to related parties		**(9,646)**	(15,026)
Cash flows from operating activities		**(34,990)**	16,984
Financial charges paid		**(20,738)**	(22,202)
Zakat paid	19	**(3,611)**	(2,773)
Employees' defined benefits paid	15	**(3,798)**	(8,625)
Net cash flows used in operating activities		**(63,137)**	(16,616)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	5	**(208)**	(492)
Acquisition of intangible assets	6	**-**	(1,209)
Proceeds from disposal of property, plant and equipment		**3,004**	1,297
Net cash flows provided by / (used in) investing activities		**2,796**	(404)
FINANCING ACTIVITIES			
Loans and borrowings - net movement	14	**(10,964)**	16,678
Increase in share capital		**112,660**	-
Cost incurred to addition in share capital		**(7,393)**	-
Net cash flows from financing activities		**94,303**	16,678
Net increase / (decrease) in cash and cash equivalents		**33,962**	(342)
Cash and cash equivalents as at January 01,		**4,531**	4,873
Cash and cash equivalents at December 31,	13	**38,493**	4,531

The annexed notes from 1 to 31 form an integral part of these financial statements.

Consolidated statement of cash flows (Continued)

(All amounts in Saudi Riyals Thousands unless otherwise stated)

	For the year ended December 31,	
	2020	2019
Adjustments for non-cash transactions:		
Due to related parties	-	15,000
Proceeds from disposal of property, plant and equipment	-	(15,000)
Impact of IFRS 16 on shareholders' equity	-	997
Impact of IFRS 16 on non-current assets	(26,032)	(28,976)
Impact of IFRS 16 on non-current liabilities	21,907	24,080
Impact of IFRS 16 on current assets	4,640	4,240
Due to related parties	-	14,250
Other revenue	-	(14,250)

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

1. Organization and principle activities

Naseej International Trading Company (Formerly: Al Sorayai Trading and Industrial Group Company) (the "Parent Company") is a Saudi Joint Stock Company was established in the Kingdom of Saudi Arabia in accordance with the Ministry of Commerce and Industry's resolution No.523/Q dated 21 Dhul-Hijja 1428H, corresponding to December 31, 2007.

During 2010, the Parent Company offered 9 million shares for public subscription representing 30% of its share capital. Thus, the Parent Company converted to a public joint stock company.

The company is engaged in the import, export, wholesale and retail trade in carpets and rugs, flooring, furniture and furnishings, antiques, office furniture, kitchens, blankets, bed sheets, curtain fabrics and accessories and manufacturing of carpets and tuft according to the Ministry of Industry and Electricity's resolution No 1566/S dated 20 Dhul-Hijja 1420H and manufacturing of industrial yarn from polypropylene, nylon, processed polypropylene treatment and processed nylon (polymide) according to the Ministry of Commerce resolution No 1699/S issued on 27 Dhul-Hijja 1424H and commercial services. Additionally, the Company may invest in other companies. These activities are carried out through the main Commercial Registration No 4030133919 issued on 5 Rabi-Al-Awal 1422 H corresponding to May 28, 2001. In the general assembly meeting held on May 22, 2012, the shareholders resolved to add activities which are to invest in real estate for investment purposes.

During 2012, the board of directors proposed to increase the Parent Company's share capital from SR 300 million to SR 375 million from the retained earnings by issuing right share i.e. one share for every four share owned by the shareholders. The shareholders approved the increase in share capital in their general assembly meeting held on April 01, 2013 and issued the shares on same date. The Parent company's share capital is SR 375,000,000 divided into 37,500,000 shares of SR 10 each.

During December 2017, shareholders' in their Extraordinary General Assembly Meeting held on December 28, 2017, decided to amortize the accumulated losses amounted to SR 150 Million, as at September 30, 2017 by capital reduction, and the use of the entire statutory reserve and general reserve. This decision resulted in capital reduction from SR 375 million to SR 225 million and the company's commercial registration amended after capital deduction dated on 7 Jumada-Al-Awal 1439H corresponding to January 24, 2018.

During August 2019, shareholders' in their Extraordinary General Assembly Meeting held on August 28, 2019, decided to amortize the accumulated losses amounted to SR 159.5 million as at June 30, 2019 by capital reduction. This decision resulted in capital reduction from SR 225 million to SR 65.5 million, representing reduction in number of shares from 22.5 million to 6.5 million. Accordingly the company's commercial registration amended after capital reduction dated on 24 Safar 1441H corresponding to October 23, 2019.

Based on the decision of the extraordinary general assembly meeting, held on January 22, 2020, the shareholders decided to increase the capital from SR 65.5 million to SR 178.6 million. Such value of capital increase amounting to SR 112.66 million will be used, as a strategic direction for the group to raise the solvency of the group through the restructuring and the implementation of an action plan focusing on its main activities. On February 16, 2020, the share capital increase procedures were completed, the results of the offering period were announced, regulatory procedures were completed, and the commercial registration was amended with the value of the new capital on February 24, 2020.

The shareholders decided, based on the decision of the extraordinary general assembly, held on 3 Ramadan 1441 H, corresponding to April 26, 2020, agreed to change the name of the company from Al-Sorayai Trading and Industrial Group Company to Naseej International Trading Company. The commercial registration was amended with the new name on May 14, 2020.

The shareholders' in their extra ordinary general assembly meeting, held on December 20, 2020, approved the reduction in share capital from SR 178.6 million to SR 61.6 million by canceling 11.6 million shares representing SR 116.5 million. The reduction of SR 116.5 million was amortized against accumulated losses of the Group. The percentage change in share capital, after the share capital reduction ratio was 65.4%, therefore the reduction rate per share is 1.529 shares.

The main branch is located in Industrial Area 1, Jeddah, Kingdom of Saudi Arabia.

(All amounts in Saudi Riyals Thousands unless otherwise stated)

1. Organization and principle activities (Continued)

There are two main registered branches for the factories names were modified as detailed below.

New name of branch	Old name of branch	Commercial registration
Jeddah Factory for Industrial Yarn	Jeddah Industrial Yarn Factory	4030115974
Al Sorayai Carpet Factory	Al Sorayai Carpet Factory	4030131014

In addition to main branch and two factories, these consolidated financial statements includes results, assets and liabilities of 17 other branches.

2. Adoption of new and revised International Financial Reporting Standards

2.1. New standards and amendments effective in the period on or after January 01, 2020

The following standards and amendments have become effective for the annual periods commencing on or after January 01, 2020.

- **Amendments to IFRS 3 – definition of a business**

The amendment to IFRS 3 Business Combinations clarifies 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. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

- **Amendments to IAS 1 and IAS 8 - definition of material**

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

- **Revised Conceptual Framework for Financial Reporting**

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

- **Amendments to IFRS 7, IFRS 9 & IAS 39 - Interest Rate Benchmark Reform**

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

2. Adoption of new and revised International Financial Reporting Standards (Continued)

2.1. New standards and amendments effective in the period on or after 1 January 2020 (Continued)

- **Amendments to IFRS 16 Covid-19 Related Rent Concessions**

On May 28, 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases the amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after June 01, 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

2.2. New standards and amendments issued but not yet effective for years ending 31 December 2020

Following new amendments were issued but are net effective for the year ending December 31, 2020.

i. IFRS 17 - Insurance Contract
ii. Amendments to IAS 1 - Classification of Liabilities as Current or Non-current
iii. Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before intended use
iv. Amendments to IFRS 3 - Reference to the Conceptual Framework
v. Amendments to IAS 37 - Onerous Contracts - Cost of Fulfilling a Contra
vi. Annual Improvements to IFRS Standards 2018-2020
vii. Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture
viii. Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16 & IAS 39 - Interest Rate Benchmark Reform - Phase 2

3. Significant accounting policies

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

3.1. Basis of preparation

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

3.2. Basis of measurement

The financial statements have been prepared on the historical cost basis except for investment, derivative financial instruments, contingent consideration and employees defined benefit obligations which are measured at fair value.

(All amounts in Saudi Riyals Thousands unless otherwise stated)

3. Significant accounting policies (Continued)

3.3. Basis of consolidation

These condensed consolidated financial statements includes the financial statement of the Parent company and the following subsidiaries (herein after referred to as "Group").

			Ownership holding	
Name	**Note**	**Main activity**	**2020**	2019
The Home Style Company LLC	a)	Retail trade in carpets, rugs, floors, furniture, blankets, curtain fabrics and accessories	**100%**	100%
Millenium Weavers Holding Company Limited LLC	b)	Distribution of carpets, floors and other related products	**100%**	100%
Al Sorayai Company for Operations and Maintenance Ltd.		Maintenance services for factories, governmental and private institutions	**100%**	100%
Al Sorayai for Projects Company LLC (The activity is suspended)		Government and private project services for furniture, rugs and carpets	**100%**	100%

a) The Home Styles Company LLC (“the subsidiary”), was incorporated in November 2010. As the Parent Company is the 100% beneficial owner of the subsidiary, these consolidated financial statements include 100% of the results of the subsidiary. Under the restructuring of the Group and upon the approval of the Board of Directors in 2017 meetings, the Group will consolidate the operations of the subsidiary in the Group under the commercial segment.

b) Millennium Weavers Holding Company LLC and Millennium Weavers LLC were incorporated in United States of America during January 2011. During 2017, the Group's board of directors has decided to close Millennium Weavers LLC and retaining the holding company. The Company's management is working to complete all required process for legal and tax procedures for the closure.

Control is achieved when the Company has:

- The ability to control the investee
- The emergence of the company’s right to variable returns as a result of its association with the investee
- The ability to use its control to influence investment returns

The company re-evaluates whether it controls any of the investees or not, if the facts and circumstances indicate changes to one or more of the control elements referred to above.

3. Significant accounting policies (Continued)

3.3. Basis of consolidation (Continued)

When the voting rights of the company, in any of the investees, are less than the majority of the voting rights in them, the company has control over that investee. When the voting rights are sufficient to give it practical ability to direct the activities related to the investee with a separate manner. The company takes into account all relevant facts and conditions when assessing whether the company has voting rights in the investee to grant it control. These facts and circumstances include:

- The amount of voting rights the group owns in relation to the size and extent of ownership of other voting rights holders
- Potential voting rights owned by the company and other voting rights holders or other parties
- Rights arising from other contractual arrangements
- Any additional facts and circumstances that may indicate that the company has, or does not have, the current ability to direct relevant activities when needed to make decisions, including how to vote at previous shareholders 'meetings

The consolidated process of the subsidiary starts when the company can control the subsidiary, while that process is discontinued when the company losses the control over the subsidiary. In particular, revenue and expenses of the acquired or disposed of subsidiary are included during the period in the statement of consolidated profit or loss and the comprehensive income from the date of the control until the date of expiry of control of the company over the subsidiary.

Statement of consolidated profit or loss and all elements of the other comprehensive income are distributed to the shareholders of the company. The total other comprehensive income of the subsidiary is also distributed to the shareholders.

If necessary, adjustments would be made to the financial statements of the subsidiary so as its accounting policies to be in conformity with those used by the group.

All transactions and balances, including assets, liabilities, equity, revenue, expenses and cash flows arising from transactions between the companies of the group upon consolidation are disposed of.

Changes in the group's equity in existing subsidiaries

Changes in the group's ownership in subsidiaries that do not lead to a loss of control are accounted for as equity transactions. The reported values of the group's equity and the non-controlling interests are adjusted to reflect changes in their ownership in the subsidiaries. Any difference between the value of the amendment of non-controlling interests and the fair value of the consideration paid or received is directly included in the equity and is attributable to the shareholders of the company.

When the group loses control of the subsidiary, any profit or loss is recognized in the consolidated income statement and calculated based on the difference between

1. the total fair value of the amount received and the fair value of any retained interest and,

2. the previously recorded book value of the assets (including goodwill), the liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income related to that subsidiary are accounted for as if the group had directly disposed of the assets or liabilities of the subsidiary (i.e. reclassification to profit, loss, or transfer to another classification in equity as specified/permitted) in accordance with international standards for financial reporting.

The fair value of the percentages that are retained from the investment in the previous subsidiary at the date of loss of control is considered as a fair value for the remaining investment upon initial recognition in subsequent periods and is in accordance with IFRS 9, and in the event the company becomes an associate or a joint venture, the fair value is considered as cost for initial recognition of investment in an associate or a joint venture.

3. Significant accounting policies (Continued)

3.4. Functional and presentation currency

The consolidated financial statements are presented in Saudi Riyal (SR) which is the functional and presentation currency of the Group and all values are rounded to the nearest thousand (SR 000), except when otherwise indicated.

3.5. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organized workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3. Significant accounting policies (Continued)

3.6. Current vs non current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification.

<u>An asset is current when:</u>
Expected to be realized or intended to be sold or consumed in the normal operating cycle
Held primarily for the purpose of trading
Expected to be realized within twelve months after the reporting period, or
Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period
All other assets are classified as non-current.

<u>A liability is current when:</u>
It is expected to be settled in the normal operating cycle
It is held primarily for the purpose of trading
It is due to be settled within twelve months after the reporting period, or
There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period
The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification
The Group classifies all other liabilities as non-current.

3.7. Fair value measurement

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

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

In the principal market for the asset or liability, or

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the 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:

3. Significant accounting policies (Continued)

3.7. Fair value measurement (Continued)

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The Group's Valuation Committee determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets, and for non-recurring measurement, such as assets held for sale in discontinued operations. The Valuation Committee is comprised of the head of the investment properties segment, heads of the Group's internal mergers and acquisitions team, the head of the risk management department, chief finance officers and the managers of each property.

External valuers are involved for valuation of significant assets, such as investment properties and unquoted financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is determined annually by the Valuation Committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The Valuation Committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Valuation Committee analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Valuation Committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Valuation Committee also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the Valuation Committee presents the valuation results to the Audit Committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

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

3.8. Revenue from contracts with customers

The Group is in the business of manufacturing, selling and installation services of carpets, rugs, yarn, colored PPE chips, blankets, bedsheets and other allied products. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the procurement services below, because it typically controls the goods or services before transferring them to the customer.

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

3. Significant accounting policies (Continued)

3.8. Revenue from contracts with customers (Continued)

Sale of carpets, rugs, yarn, coloured PPE chips, blankets, bedsheets and other allied products.

Revenue from sale of carpets, rugs, yarn, coloured PPE chips, blankets, bedsheets and other allied products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the items at the customer's location or in most cases over the counter. The normal credit term is 30 to 90 days upon delivery.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of carpets, rugs, tuft tiles and other allied products, the Group considers the effects of variable consideration, existence of a significant financing component, noncash consideration, and consideration payable to the customer (if any).

Other income

Other income is recognized on an accrual basis.

Contract balances
Contact assets

A contract asset is initially recognized for revenue earned from selling of carpets, rugs, yarn, coloured PPE chips, blankets, bedsheets and other allied products because the receipt of consideration is conditional on successful completion of the delivery. Upon delivery of demanded product and acceptance by the customer, the amount recognized as contract assets is reclassified to trade receivables

Trade receivables

A receivable is recognized if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due)

Contract liabilities

A contract liability is recognized if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

3.9. Foreign currencies

The Group's consolidated financial statements are presented in Saudi Riyal (SR), which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

3. Significant accounting policies (Continued)

3.9. Foreign currencies (Continued)

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group’s net investment in a foreign operation. These are recognized in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognized in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively)

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyal at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

3.10. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the strategic committee of the main board of the Company.

3.11. Investment in equity accounted entities

Associates

Investments in associates are those over which the Group has significant influence. These are accounted for using the equity method of accounting. Significant influence is considered to be participation in the financial and operating policy decisions of the investee and is usually evidenced when the Group owns between 20% and 50% of that company’s voting rights.

Investments in associates are initially recorded at cost and the carrying amount is increased or decreased to recognize the Group’s share of the profits or losses of the associate after acquisition. At the date of acquisition any excess of the cost of acquisition over the Group’s share of the fair values of the identifiable net assets of the associate is recognized as goodwill and included in the carrying amount of the associate. The carrying amount of these investments is reduced to recognize any impairment of the value of the individual investment. If the Group’s share of losses exceeds its interest in an associate the carrying value of that investment is reduced to nil and the recognition of any further losses is discontinued unless the Group has an obligation to make further funding contributions to that associate.

3. Significant accounting policies (Continued)

3.11. Investment in equity accounted entities (Continued)

Associates (Continued)

The Group's share of associates' post acquisition profits or losses is recognized in profit or loss and the share of post-acquisition movements in other comprehensive income is recognized within other comprehensive income.

Where a Group entity has transactions with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associated entity. Accounting policies of associated entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint ventures

A joint venture is a joint contractual arrangement whereby the Group and other parties have rights to the net assets of the arrangement.

The Group's interests in joint ventures have been accounted for using the equity method.

Where the Group has transactions with a joint venture, unrealised profits and losses are eliminated to the extent of the Group's interest in that joint venture.

Discontinuing equity accounting

When the Group ceases to have significant influence or joint control as a result of dilution or disposal of its interest, the retained interest is revalued to its fair value at that point in time with gain or loss immediately taken to profit or loss. The amount is deemed to be the cost of the investment going forward and accounted. Amounts previously recognized as share of other comprehensive are reclassified to profit or loss or transferred to retained earnings depending on the nature of the items

If change of interest occurs without loss of significant influence or joint control, items previously recognized as other comprehensive income are only transferred or reclassified to the extent of the interest disposed off.

If the Group instead gains control (as a result of increasing its stake), the fair value of the interest previously held is included as part of purchase consideration.

3.12. Property, plant and equipment

Property, plant and equipment except freehold land and capital work in progress are stated at cost less accumulated depreciation and impairment in value, if any. Freehold land and capital work in progress is valued at cost.

Based on the decision of the Group's Board of Directors on Rabi-Al-Thani 19,1441h corresponding to December 16, 2019, the depreciation policy of certain plant and equipment has been changed from the straight-line method with the specified depreciation rates for each type of property, plant and equipment to the method of production units effective January 1, 2020 provided that depreciation is as follows:

3. Significant accounting policies (Continued)

3.12. Property, plant and equipment (Continued)

Item	Useful life (Yrs.)	Depreciation method
Buildings	10-20	Straight – line
Plant, equipment and tools	4-12	Straight – line, production units
Improvements and décor	4-7	Straight – line
Furniture, fixtures, and office equipment	3-4	Straight – line
Motor vehicles	4	Straight – line

The expected production units for each construction machine was estimated based on a study prepared by the production department and a survey by the factory for certain plant and equipment, and accordingly the final study has been prepared to determine the units expected to be produced by those plant and equipment that have been approved by the company's board of directors. Therefore, the depreciation during the period January 01, 2020 until December 31, 2020, was calculated for these plant and equipment.

In respect of additions and disposals during the year, depreciation is charged from the day of acquisition or capitalization and up to the day preceding of disposal respectively.

Annual review of residual values and useful lives

The residual value of the asset is the current estimated amount that the Group can obtain from excluding the asset after deducting the estimated costs of exclusion if the asset has already reached the expected life and condition at the end of its useful life.

The residual values and useful lives of the assets are reviewed and adjusted, if necessary, at the end of each financial period. If the forecasts differ from previous estimates, the change (s) are calculated as a change in accounting estimates.

Asset segmentation

Property, plant and equipment often consists of different parts with different useful lives or consumption patterns. These parts are replaced (independently) during the useful life of the asset. Accordingly:

Under the segmentation approach. The Group does not recognize the daily maintenance costs of the item in the carrying amount of the item of property, plant and equipment. These costs are recognized in the consolidated statement of profit or loss when incurred. The components of the different assets are determined and depreciated separately only for the significant parts of property, plant and equipment with useful lives or different depreciation patterns. However, the principles regarding parts replacement (which represent the subsequent cost of a replacement part) generally apply to all specific parts, regardless of whether they are significant or not important.

Capitalization of costs within property, plant and equipment

The cost of item of property, plant and equipment consists of the following:

Purchase price, including import duties and non-refundable purchase taxes, after discounting commercial discounts and discounts.

Any costs directly related to the origin of the site and the necessary condition for its operation in the manner deemed appropriate for the administration.

3. Significant accounting policies (Continued)

3.12. Property, plant and equipment (Continued)

Initial estimation of the costs of dismantling and moving the item, returning the site on which it is located to its natural state, and the obligation incurred either as a result of purchasing this item or as a result of using it during a specific period for purposes other than producing inventory during that year.

Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably, the recognition of the carrying amount of one of the parts recognized as a separate asset ceases at replace it.

Borrowing costs related to the qualifying assets are capitalized as part of the cost of the qualifying assets until commencement of commercial production.

All other repair and maintenance expenses are charged to the consolidated statement of profit or loss during the period of the financial statements in which they are incurred. Regular maintenance and repairs that do not increase the estimated useful life of the asset or production outputs are charged to the consolidated statement of profit or loss when incurred.

Profits and losses resulting from the disposal of property, plant and equipment are determined by comparing the proceeds with the net book value and are included in other income.

3.13. Leases

The group leases various offices, equipment and vehicles. Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices unless it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset

The right-of-use assets are also subject to impairment.

3. Significant accounting policies (Continued)

3.13. Leases (Continued)

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.
The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.
Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases and of low-value assets are recognized on a straight-line basis as an expense in profit or loss.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's investment in the relevant leases. Income from finance leases is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the relevant leases.

Lease income from operating leases where the group is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

3.14. Inventories

Inventories except wastes are valued at lower of cost and net realizable value. Any write-down to NRV recorded as an expense in the period in which the write-down occurs. Any reversal is recognized in consolidated statement of profit or loss in the period in which the reversal occurs. Net realizable value represents the estimated selling price in the ordinary course of business less estimated cost of completion and estimated marketing, selling and distribution cost to make the sales.

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

3. Significant accounting policies (Continued)

3.14. Inventories (Continued)

Cost is determined as follows:

Raw material	Average cost
Spare parts	Average cost
Work in process	Average manufacturing cost
Finished goods	Average manufacturing cost

Wastes are valued at net realizable value. Inventories are assessed by the purchase cost or the value of the supplier's invoice in addition, to expenses necessary to complete the purchase.

These are valued at average cost less allowances for obsolete or slow moving items, if any. Items in transit are valued at cost comprising invoice value and other charges incurred thereon.

Net realizable value and provision assessment of inventory

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. The NRV assessment to write-down the inventory is normally made on an individual item basis. This would be where items relate to the same product line (which have a similar purpose and end use) are produced and marketed in the same geographical area.

A provision is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified and written down through the inventory counting procedures. Provision for slow moving and obsolete inventories is assessed by each inventory category as part of their ongoing financial reporting. Obsolescence is assessed based on comparison of the level of inventory holding to the projected likely future sales.

3.15. Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and zakat expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

Represents a separate major line of business or geographical area of operations.

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

3. Significant accounting policies (Continued)

3.15. Non-current assets held for sale and discontinued operations (Continued)

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and

Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or

Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after zakat and tax from discontinued operations in the statement of profit or loss.

3.16. Cash dividend

The Company recognizes a liability to pay a dividend when the distribution is authorized, and the distribution is no longer at the discretion of the Company. As per the applicable laws, a distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

3.17. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Type	**Useful life**
Software	4 years

3. Significant accounting policies (Continued)

3.18. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

3.19. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A. Recognition and derecognition of financial instruments

Financial instruments, other than derivative financial instruments, are recognized on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets that are regular way purchased or sold are recognized using the trade date accounting i.e. that is when the Group commits to purchase or sell.

Financial instruments that are not trade receivables are initially measured at fair value, which generally equates to acquisition cost, which includes transaction costs for financial instruments not subsequently measured at fair value.

Financial assets are derecognized when:

- The contractual rights to cash flows from the financial asset expire, or
- the asset is transferred such that contractual rights to cash flows of the assets and the risks and rewards of ownership are transferred,

On de-recognition, the Group recognized the differences between carrying amount and consideration.

In factoring arrangements and guaranteed receivables, transfer may not result in de-recognition, because the Group retains exposure to risks and rewards to some extent. The Group assesses its extended involvement and recognizes a liability, such that the net of asset and liability represents the rights and obligations retained, measured based on the classification of the original asset.

Financial liabilities (or a part of) are derecognized when, and only when the obligation is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expires. The gain or loss between the carrying value and amount paid is recognized in profit or loss.

If the terms of an existing financial liability (loans and borrowings) are substantially modified this will be considered to meet the criteria for derecognition of the original lability, and a new financial liability is recognized.

B. Classification and subsequent measurement of financial assets

Measurement of financial assets depends on the classification, which is determined by the business model for holding the asset and characteristics of its cash flows

3. Significant accounting policies (Continued)

3.19. Financial instruments (Continued)

B. Classification and subsequent measurement of financial assets (Continued)

I. Amortized cost

Assets are held for the purpose of obtaining contractual cash flows, which are solely interest and principal, such as vanilla debt instruments, loans and receivables including contract assets. Interest is calculated using effective interest method and included in finance income in profit or loss. Impairment is presented in a separate line in profit or loss.

II. Fair value through other comprehensive income (FVOCI)

If in addition to above, if the business model also includes selling the assets, then these assets are measured at fair value with changes in fair value flowing through OCI. Interest income is calculated and presented as above. Impairment is included in profit or loss and reduces/ increases the fair value gain/ loss recognized in OCI reserve.

On derecognition, gains and losses are recycled to profit or loss and included in other gains/ losses.

III. Fair value through profit or loss (FVTPL).

Assets that do not meet the criteria above are measured as FVTPL with changes in fair value presented in other gains/ losses.

For equity investments that the group considers to be long term strategic investments, the group has taken the election in IFRS 9 to present the changes in fair value through other comprehensive income. Unlike ii) above however, on sale of investments, the cumulative OCI gain/ loss will be transferred within equity and will not be recycled through profit or loss.

Dividends are recognized as other income when there is a right to receive payment.

C. Classification and measurement of financial liabilities

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities, which are measured at amortized cost. Financial liabilities are classified at fair value through profit or loss if they are either held for trading or they are otherwise designated within this classification. Gains and losses on such financial liabilities are recognized within other gains and losses in the statement of comprehensive income.

A financial liability is classified as held for trading if (a) it has been acquired principally for the purposes of subsequent short-term repurchase; (b) on initial recognition it is part of a portfolio of identified financial instruments which have a pattern of short-term profit taking; or (c) it is a derivative financial instrument that is not designated and effective as a hedging instrument.

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

3. Significant accounting policies (Continued)

3.19. Financial instruments (Continued)

C. Classification and measurement of financial liabilities (Continued)

A financial liability may otherwise be designated at fair value through profit or loss upon initial recognition if such designation eliminates or reduces significantly a measurement or recognition inconsistency that would otherwise arise; or (b) the financial liability forms part of a group of financial assets, financial liabilities or both, which is managed and its performance evaluated on a fair value basis as a part of the Group's documented risk management and investment strategies; and (c) it forms part of a contract containing one or more embedded derivatives and the entire contract can be so designated in accordance with applicable financial reporting standards.

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis, within finance costs in the statement of comprehensive income.

The Group derecognizes financial liabilities when the obligations of the Group are discharged, cancelled or have expired.

Embedded derivatives

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value through profit and loss.

However financial liabilities which contain multiple embedded derivatives are not separated and are treated as fair value through profit and loss.

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible loan notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

The interest expense on the liability component is calculated by applying the effective interest method. This is obtained by calculating the present value of future cash flows at a market rate for a loan without the convertible component. The difference between the effective interest rate and the interest paid is added to the carrying amount of the convertible loan note.

Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss. Distributions to the equity holders are recognized in equity, net of attributable taxation.

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

3. Significant accounting policies (Continued)

3.20. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Currently the group does not offset financial assets and financial liabilities. The only relevant arrangement the Group is subject to is a master netting arrangement.

3.21. Derivative financial instruments and hedging activities

Derivative financial instruments

The Group uses derivative financial instruments to manage exposures to interest rate, commodities and foreign currency risks, including exposures arising from forecast transactions.

Derivative financial instruments are initially measured at fair value. Changes in fair value subsequently are recognized in profit or loss, together with transaction costs. Trading derivatives are classified as current asset or liability.

Hedging

If the derivative financial instrument is used as a hedging instrument, it is classified into one of the following:

a) A fair value hedge – this instrument hedges the exposure to changes in fair value of a recognized asset or liability or a firm commitment; or
b) A cash flow hedge – this instrument hedges exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.
c) Hedges of a net investment in a foreign operation (net investment hedge).

To meet the criteria for hedge accounting, management formally designates and documents the hedging relationship and Groups risk management strategy for the hedge, nature of risk, hedge instrument and hedged item. Effectiveness of the hedge is also assessed against these requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as the quantity of the hedged item and the quantity of the hedging

When effectiveness subsequently not met with regards to hedge ratio but risk management objective remains the same, hedge ratio is adjusted accordingly.

The Group discontinues hedge accounting prospectively when it is determined that the derivative is either not effective as a hedge, after adjusting the ratio or when the derivative expires, is sold, terminated or exercised, or when the risk management objective has changed and the instrument no longer meets the criteria.

Fair value hedges

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss on the hedging instrument is recognized in profit or loss, and the gain or loss on the hedged item attributable to the hedged risk is also recognized in profit and loss. The gain or loss on the effective portion of a fair value hedge is recognized in within finance income or cost. The gain or loss on the ineffective portion of a fair value hedge is recognized within other gains and losses within profit or loss.

3. Significant accounting policies (Continued)

3.21. Derivative financial instruments and hedging activities (Continued)

Cash flow hedges

In relation to cash flow hedges which meet the conditions for hedge accounting:

1. cash flow reserve a component of equity is adjusted to the lower of:

a) cumulative gain/ loss on hedging instrument from inception of hedge
b) cumulative gain/ loss in fair value of the hedged item

2. the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized through other comprehensive income and

3. the ineffective portion is recognized in profit or loss (balancing figure).

For cash flow hedges affecting future transactions, the gains or losses which are recognized as part of other comprehensive income are transferred to profit or loss in the same period in which the hedge transaction affects income. Where the hedge transaction results in the recognition of an asset or liability, the associated gains or losses that had previously been recognized in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

If future cash flows are no longer expected to occur, the amounts are reclassified to profit or loss immediately.

The Group uses forwards in cash flow hedges and designates only the change in fair value of the spot element of forwards as the hedging instrument. The change in fair value (‘forward points’) is separately accounted for as a cost of hedging and recognized in a costs of hedging reserve within equity.

When the group uses options for hedging, only change in intrinsic value is designated as hedging instrument to hedge transactions. The changes are accounted for as above.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the hedged item has a maturity date in excess of twelve months from the reporting date, and as a current asset or liability when the maturity of the hedged item is less than twelve months from the reporting date. Trading derivatives are classified as current assets or liabilities

Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss within other net gains/losses.

Gains and losses accumulated in equity are included in profit or loss when the foreign operation is partially disposed of or sold.

Notes to the consolidated financial statements for the year ended December 31, 2020
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3. Significant accounting policies (Continued)

3.22. Loans and borrowings

Loans and borrowings are initially recognized at fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition long-term borrowings are measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

3.23. Employees' defined benefit obligations

Short and long-term benefits

Liabilities for wages and salaries, including non-monetary benefits and accumulating unused paid leaves that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations within accruals in the statement of financial position.

Employees' end-of-service benefits (EOSB)

The liability or asset recognized in the consolidated statement of financial position in respect of defined benefit. EOSB plan is the present value of the defined benefit obligation at the end of the reporting year. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

Defined benefit costs are categorized as follows:

Service cost

Service costs include current service cost and past service cost are recognized immediately in consolidated statement of profit or loss.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in the consolidated statement of profit or loss as past service costs.

Interest cost

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefits obligation. This cost is included in employee benefit expense in the consolidated statement of profit or loss.

Re-measurement gains or losses

Re-measurement gains or losses arising from experience adjustments and changes in actuarial assumptions are recognized in the year in which they occur, directly in the consolidated other comprehensive income.

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

3. Significant accounting policies (Continued)

3.24. Zakat & Tax

The Group is subject to zakat in accordance with the regulations of General Authority of Zakat and Tax ("GAZT"). Foreign subsidiaries are subject to the relevant income tax regulations in their countries of domicile. Group's zakat and its share in the foreign subsidiaries income tax are accrued and charged to the consolidated statement of profit or loss currently. Additional zakat and foreign income tax liabilities, if any, related to prior years' assessments are accounted for in the period in which the final assessments are finalized.

3.25. Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. 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. Where 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. Provision should be reviewed at the end of each reporting period in case, if future outflows are not probable, provisions should be reversed.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset and not as a reduction of the required provision and also the amount to be recognized as an asset should not exceed the amount of the provision, If it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent assets and liabilities are possible rights and obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not fully within the control of the Group.

3.26. Expenses

Cost of goods sold

Cost of goods sold is determined on the basis of the cost of production or of purchase, adjusted for the variation of inventories. All other expenses, including those in respect of advertising and promotions, are recognized when the Group receives the risks and rewards of ownership of the goods or when it receives the services.

Selling and marketing expenses

Selling and marketing expenses comprise of all costs for selling and marketing the Group's products and include expenses for advertising, marketing fees and other sales related overheads. Allocation between selling and marketing expenses and cost of sales are made on a consistent basis, when required.

General and administrative expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of sales or the selling and marketing activity of the Group. Allocation between general and administrative expenses and cost of sales, are made on a consistent basis, when required.

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

3. Significant accounting policies (Continued)

3.27. Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible bonds and share options granted to employees if any.

3.28. Related party transactions

Transactions with related parties are priced on arm's length basis. Prices for these transactions are determined on the basis of comparable uncontrolled price method, which sets the price by reference to comparable goods and services sold in an economically comparable market to a buyer unrelated to the seller.

3.29. Events after the consolidated statement of financial position date

The Group adjusts the financial statements, if an event occurs after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate. These adjustments are made up to the date of approval of the Consolidated Financial Statements by the Board of Directors.

3.30. Borrowing costs

Direct borrowing costs to the acquisition, construction, or production of an eligible asset, which is an asset that necessarily takes a long period of time, that is, more than one year, to prepare for its use or for the purpose of selling, the borrowing cost is added to the cost of that asset, until the assets are ready, great for use or for sale. Moreover, the borrowing cost is not capitalized during the layoff. To the extent that variable rate loans are used to fund a qualifying asset and are hedged by an effective cash flow hedge to offset the risk of commission rate changes, the effective portion of the derivative is recognized in the consolidated statement of other comprehensive income and is transferred to the consolidated statement of profit or loss when the qualifying asset affects profit or loss to the extent that fixed price loans are used to finance a qualifying asset and is hedged in an effective hedge of the fair value of the commission rate risk , the capitalized borrowing costs reflect the hedging interest rate. Earned investment income is deducted from the temporary investment of specific loans awaiting expenditures on qualifying assets from borrowing costs eligible for capitalization. All other borrowing costs are recognized in the consolidated statement of profit or loss in the period in which they are incurred.

4. Key accounting estimates and judgments

The preparation of the Consolidated Financial Statements requires Group Management to exercise judgment and to make estimates and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets and liabilities and disclosures. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. 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.

The following critical judgments and estimates have the most significant effect on the amounts recognized in the consolidated financial statements:

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

4. Key accounting estimates and judgments (Continued)

Lease contract duration

When determining the term of a lease, management takes into account all facts and circumstances that create an economic incentive to exercise the option to extend or terminate. An evaluation is reviewed in the event of a material event or significant change in the circumstances that affect this assessment. During the current fiscal year, there was no material financial impact for reviewing the terms of the lease contracts to reflect the effect of exercising options for extension or termination.

Depreciation and amortization on non-current assets

Depreciation and amortization is recognized as to write off the cost of assets less their residual values over their useful lives, using appropriate method. The Group's management estimates the useful lives, residual values and depreciation method and review it at the end of each reporting period. The effect of any changes in estimate accounted for on a prospective basis.

Zakat and income taxes

Where the amount of zakat and tax liabilities or assets is uncertain, the Group recognizes provisions that reflect management’s best estimate of the most likely outcome based on the facts known in the relevant jurisdiction. Any differences between zakat and tax estimates and final tax assessments are charged to the consolidated statement of profit or loss in the period in which they are incurred, unless anticipated.

Provision for doubtful debts

Allowances for doubtful receivables represent the Group’s estimate of the losses that could arise from the failure or inability of customers to make payments when due. These estimates are based on the ageing of customers’ balances, specific credit circumstances and the Group’s historical bad receivables experience.

Impairment for tangible and intangible assets

At the end of each reporting period, the Group estimates 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).

Provision for slow moving, obsolete and damaged inventory

Management makes a provision for slow moving, obsolete and damaged inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

4. Key accounting estimates and judgments (Continued)

Employees' defined benefit obligations

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

The Group determines the appropriate discount rate at the date of each financial report. In determining the appropriate discount rate, management considers interest rates for corporate bonds denominated in the currency in which the benefits are to be paid and which have maturity periods that are close to the expected duration of the relevant pension obligation.

Refer to disclosure 15 for further disclosure of the main sources of unconfirmed estimates in relation to the retirement benefit obligation.

Notes to the consolidated financial statements for the year ended December 31, 2020

(All amounts in Saudi Riyals Thousands unless otherwise stated)

5. Property. Plant and equipment – net

	Free Land	Buildings	Machinery, equipment and tools	Decoration, Furniture, fixture and office equipment	Motor vehicles	Capital in progress	Total
Cost							
As at January 01, 2019	146	187,986	563,033	120,643	22,172	1,596	895,576
Additions	-	7	111	838	293	452	1,701
Transfer to work in progress	-	-	-	692	-	(692)	-
Disposals	-	(12,233)	(17,771)	(1,296)	(1,532)	(1,356)	(34,188)
Reclassification to intangibles	-	-	-	(12,890)	-	-	(12,890)
As at December 31, 2019	146	175,760	545,373	107,987	20,933	-	850,199
As at January 01, 2020	**146**	**175,760**	**545,373**	**107,987**	**20,933**	**-**	**850,199**
Additions	**-**	**4**	**10**	**194**	**-**	**-**	**208**
Written off during the year	**-**	**-**	**-**	**(24,079)**	**-**	**-**	**(24,079)**
Disposals	**-**	**-**	**(10,185)**	**(441)**	**(855)**	**-**	**(11,481)**
As at December 31, 2020	**146**	**175,764**	**535,198**	**83,661**	**20,078**	**-**	**814,847**
Accumulated depreciation							
As at January 01, 2019	-	128,080	412,411	110,451	18,649	-	669,591
Charge for the year	-	4,540	19,158	3,896	1,179	-	28,773
Disposals	-	(11,004)	(16,632)	(1,290)	(1,444)	-	(30,370)
Reclassified to intangibles	-	-	-	(10,892)	-	-	(10,892)
As at December 31, 2019	-	121,616	414,937	102,165	18,384	-	657,102
As at January 01, 2020	-	**121,616**	**414,937**	**102,165**	**18,384**	-	**657,102**
Charge for the year	-	**4,507**	**9,334**	**1,861**	**927**	-	**16,629**
Written off during the year	-	-	-	**(22,964)**	-	-	**(22,964)**
Disposals	-	-	**(10,174)**	**(438)**	**(855)**	-	**(11,467)**
As at December 31, 2020	-	**126,123**	**414,097**	**80,624**	**18,456**	-	**639,300**
Net book value:							
As of December 31, 2019	146	54,144	130,436	5,822	2,549	-	193,097
As of December 31, 2020	**146**	**49,641**	**121,101**	**3,037**	**1,622**	-	**175,547**

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

5. Property. Plant and equipment – net (Continued)

A) Buildings include premises with net book value as of December 31, 2020 of SR 24,879 thousands (2019: SR 33,863 thousands) which are constructed on land leased from the management of the Industrial City in Jeddah at nominal rent for a period 25 years started on Ramadan 12, 1409H for one plot and Dhul-Quada 28, 1411H for another. At the expiry of their term, the leases are renewable for similar periods at the option of the Company. Additionally, the Company has entered into lease agreements for additional land plots for the expansion in the carpet and weaving factories for a period of 25 years starting from Safar 06, 1427H.

Building also include premises with net book value as of December 31, 2020 of SR 6,035 thousands (2019: SR 6,552 thousands) constructed on leased land plots for periods ranging from 1 to 20 years for an annual rent of SR 70 thousands (2019: SR 148 thousands) . At the expiry of the term, the leases are renewable for further periods at the option of the Company.

B) Depreciation charge for the year ended December 31, has been allocated as follows:

	2020	2019
Cost of sales (note 21)	**14,109**	24,110
Selling and distribution expenses (note 22)	**1,956**	2,901
General and administrative expenses (note 23)	**564**	906
Charged to consolidated statement of profit & loss	**16,629**	27,917

C) Impact of change on the accounting estimate is as follows:

	Value
Depreciation expense for the period in accordance with the straight line method	**23,017**
Depreciation expense for the period in accordance with the production units method	**16,629**
Impact of change on the depreciation method estimate decrease	**6,388**

6. Intangible assets – net

	2020	2019
Opening cost	**12,889**	11,680
Addition during the year	**-**	1,209
	12,889	12,889
Accumulated amortization (note 6.1)	**(11,747)**	(10,891)
	1,142	1,998

6.1. Amortization

Opening accumulated amortization	**10,891**	10,035
Charge for the year	**856**	856
Closing accumulated amortization	**11,747**	10,891

Notes to the consolidated financial statements for the year ended December 31, 2020
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7. Investment in associates and joint ventures

		Arabian Calcium Carbonate Production Company*	Al Salam Educational National Int'l Co.**	2020	2019
Capital	1	5,000	250	**5,250**	5,250
Long term payment	2	16,880	-	**16,880**	16,880
Group share of result					
Group share of result as at January 01,		(6,738)	(250)	**(6,988)**	(6,773)
Current year share of loss		(409)	-	**(409)**	(670)
Group share of result	3	(7,147)	(250)	**(7,397)**	(7,443)
Balance at the December 31,	(1+2+3)	14,733	-	**14,733**	15,142
Share of losses of an investments in an associate and a joint venture more than cost			-	**-**	(455)

*The Group owns 52% of the Arabian Calcium Carbonate Production Company (a limited liability Company) was established in Saudi Arabia, with commercial registration number 4030259768 dated 23 Muharram 1435H corresponding to December 6, 2012 and issued from Jeddah. According to the decision of the Extraordinary General Assembly Meeting on January 16, 2017, corresponding to 17 Rabi-Al-Thani 1438H the shareholders have agreed to reduce the percentage contribution of the company from 52% to 25% by entering the company's new shareholder capital increase and therefore the company loses control of the subsidiary. The Article of Association was amended on Rabi-Al-Thani 8, 1441H corresponding to December 5, 2019, and the commercial registration was amended on Rabi-Al-Thani 14, 1441H corresponding to December 12, 2019.

The investment, in Arabian Calcium Carbonate Production Company – 25% shareholding, has been accounted for using equity method of accounting based on management financial statements (un–audited) for the year ended December 31, 2020. The management is not expecting any changes in the results of the audited financial statements for the year ended 2020, as there were no changes in the results of management accounts and subsequent audited financial statements of the said company for the year 2019.

**The Group owns 25% shares of Al Salam Educational National Int'l Co. The Company was established in Saudi Arabia for the purpose to prepare, manage, operation of colleges, institutes and universities also includes publication and trading of books across Kingdom of Saudi Arabia. The company was established on March 20, 2014 corresponding to 19 Jamad-Al-Awal 1435H.

8. Right-of-use assets

8.1. Intangible assets

	2020	2019
At as 1 January	**29,220**	29,220
Additions during the year	**1,569**	-
	30,789	29,220
Amortization (note 8.1.1)	**(6,572)**	(2,108)
Right of use asset – net	**24,217**	27,112

8.1.1. Amortization

	2020	2019
Accumulated amortization as at January 01,	**2,108**	-
Amortization during the year	**4,464**	2,108
Accumulated amortization as at December 31,	**6,572**	2,108

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

8. Right-of-use assets (Continued)

8.2. Right-of-use obligation

	2020	2019
At as 1 January	**26,147**	-
Additions during the year	**1,856**	26,147
Finance charges accrued	**1,449**	-
Rent paid during the year	**(5,756)**	-
As at 31 December	**23,696**	26,147
Current portion	**(3,948)**	(4,240)
Non-current portion	**19,748**	21,907

9. Inventories – net

Finished Goods	**80,785**	89,850
Raw materials	**61,139**	72,794
Spare parts	**22,518**	22,138
Work in process	**4,790**	18,698
Total	**169,232**	203,480
Less: Provision for slow moving and obsolete inventory (note 9.1)	**(18,968)**	(39,415)
	150,264	164,065

9.1. Movement in the provision for slow moving and obsolete inventory is as follows:

Balance at the beginning of the year	**39,415**	23,962
Charge for the year	**28,700**	30,754
Write off during the year	**(38,429)**	-
Provision no longer required	**(10,718)**	(15,301)
	18,968	39,415

9.2. During 2020, the Group sold products with sale prices below cost amounting to SR 14.05 million (2019: SR 31.35 million) and the resulting losses of SR 5.72 million (2019: SR 18.17 million).

10. Trade receivables – net

	2020	2019
Key accounts	**17,375**	4,156
Foreign receivables	**18,027**	18,528
Trading receivables	**50,115**	70,166
Governmental receivables	**-**	320
Other	**70,403**	55,025
	155,920	148,195
Provision for doubtful debts (note 10.1)	**(68,765)**	(52,919)
Trade receivables – net	**87,155**	95,276

10.1. Movement in the provision for doubtful debts is as follows:

Balance at the beginning of the year	**52,919**	38,499
Charge for the year	**16,953**	14,990
Written-off during the year	**(1,107)**	(570)
	68,765	52,919

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

11. Related party names and transactions

11.1. Name	**Relationship**
Green Vision for Artificial Grass Company	Affiliate
Saudi Company for Manufacturing Carpet Materials	Affiliate
Al Sorayai Industrial Investment Group	Affiliate
Khalid Hamdan Al Sorayai Est.	Affiliate
Al Tadamon Al Awal Company	Affiliate
SNASCO Holding Investment Company	Affiliate
Al Raqi Real Estate Investment and Development Company	Affiliate
Al Hikma International For Real Estate Development Company	Affiliate
Others	Shareholders

11.2. The significant transactions and the related amounts are as follow:

	2020	2019
Purchases	**14,618**	12,902
Sales	**79**	26,018
Sale of property and equipment*	**-**	15,000
Other revenue**	**-**	14,250
Management benefits	**4,458**	4,871
BOD remuneration and executive committees	**1,550**	1,783
Rent	**2,153**	4,333

11.3. Due from related parties

Al Tadamon Al Awal Company	**-**	1,014
Khalid Hamdan Al Sorayai EST.	**-**	3,200
	-	4,214

11.4. Due to related parties

Saudi Company for Manufacturing Carpets Materials	**4,939**	10,812
Al Hikma International for Real Estate Development Company	**10,105**	10,891
Al Sorayai Industrial Investment Group	**1,077**	1,105
Al Raqi Real Estate Investment and Development Company	**3,049**	3,149
SNASCO Holding Investment Company	**1,559**	1,745
Mohammed Bin Nasser Al Sorayai.	**359**	3,000
Other	**325**	357
	21,413	31,059

* During the year 2019, the Group sold some of the property, plant and equipment, the most important of which is the sale of Al Jazeera Spinning and Weaving plant, with net book value of SR 1.2 million and a selling value of SR 15 million, which resulted in profits from the sale of SR 13.8 million.

** On September 30, 2019 the company reached an agreement to write off the debt due to Al-Hekma International Real Estate Development Company amounted to SR 14.3 million and was booked as other income (Note No. 24), which representing 50% of the outstanding balance due on the Group for the related party as of September 30, 2019, the Group management announced this agreement on October 1, 2019.

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

12. Prepayments and other receivables net

	2020	2019
Prepayments	**2,565**	3,442
Employee loans	**794**	455
Saudi Arabian Custom Authorities (*)	**-**	16,544
Advances to contracts	**13,493**	6,735
Cash cover for guarantee letters	**3,137**	3,049
Other	**3**	232
	19,992	30,457
Impairment for doubtful debts (note 12.1)	**-**	(16,544)
	19,992	13,913

12.1. Balance at the beginning of the year	**16,544**	16,544
Written off during the year	**(16,544)**	-
Ending balance	**-**	16,544

13. Cash and cash equivalents

Cash in hand	**248**	1,964
Cash at banks	**38,245**	2,567
	38,493	4,531

14. Loans and borrowings

National Commercial Bank	**33,364**	34,160
Al Rajhi Bank	**53,866**	53,878
Saudi British Bank	**21,785**	22,240
Riyadh Bank	**130,775**	137,936
SAMBA	**6,559**	7,567
Saudi Industrial Development Fund (SIDF)	**28,357**	28,357
Ministry of Finance (MoF)	**36,443**	37,975
Loan and borrowing – total	**311,149**	322,113
Loans and borrowings – current	**(103,000)**	(167,556)
Loans and borrowings – non current	**208,149**	154,557

During the year ended December 31, 2020, there has been non-compliance of certain covenants on outstanding loans and borrowings with various banks. Subsequent to year end (refer note 30.2), the management is awaiting final approval for restructuring credit facilities by the banks (except SIDF and MoF - under negotiation). Accordingly, as at December 31, 2020, the management did not reclassified non-current portion of loans and borrowings to current portion. Therefore, the non-current portion of loans and borrowings will not be called as at year end.

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

14. Loans and borrowings (Continued)

14.1. Saudi Industrial Development Fund

During 2012, the Group obtained a long term loan amount of SR 53 million from Saudi Industrial Development Fund (SIDF). The first installment was due in February 2013 followed by semi-annual installment. This loan is guaranteed by a mortgage over all the property and equipment of the Jeddah industrial yarn plant and the loan is for the purpose of financing the expansion of the Jeddah industrial yarn factory and rug factories. The loan agreement involves certain covenants including the maintenance of certain financial ratios and maintenance of a minimum level of tangible solvency and minimum of liquidity.

14.2. Ministry of Finance

During the year 2019, the Company has obtained short term credit facilities from the Ministry of Finance in the form of interest free loan, amounting to SR 40 million, which could be used in payment of local and foreign suppliers' bills.

15. Employees' defined benefit obligations

15.1. Movement in employees' defined benefit obligations during the year is as follow:

	2020	2019
Opening balance as at January 01,	**21,496**	24,039
Expense charged for the year (note 15.2)	**2,815**	4,335
Re-measurement (gain) / loss	**(488)**	1,747
Benefits paid to outgoing employees	**(3,798)**	(8,625)
Closing balance as at December 31,	**20,025**	21,496

15.2. Charged to the consolidated statement of profit and loss

Current service cost	**2,305**	3,449
Interest cost	**510**	886
Cost recognized in profit and loss	**2,815**	4,335

15.3. Key actuarial assumptions

Valuation discount rate (p.a)	**2.11%**	2.60%
Salary increment rate	**1.00%**	1.20%
Employee turnover rate	**7.97%**	7.76%
Average retirement age	**65 years**	65 years

16. Derivative financial instruments

The Group had various financial derivatives that were designated as cash flow hedge instruments to cover cash flow fluctuations arising from commission rates and foreign exchange prices that are subject to market price fluctuations. As per Group policy derivative instruments are not used for trading or speculative purposes.

The following table detail the notional principal amounts and remaining terms outstanding as at the reporting date:

Notes to the consolidated financial statements for the year ended December 31, 2020
(All amounts in Saudi Riyals Thousands unless otherwise stated)

16. Derivative financial instruments (Continued)

	Nominal Amount of the Hedging Instrument	Carrying amount of the Hedging Instrument	
		Asset	Liability
31-Dec-20	**94,500**	-	**2,716**
Interest rate swaps	**94,500**	-	**2,716**
31-Dec-19	94,500	-	2,648
Interest rate swaps	94,500	-	2,648

17. Trade payables

	2020	2019
Local payables	**32,185**	37,844
Foreign payables	**7,372**	6,235
	39,557	44,079

18. Other payables

	2020	2019
Accrued expenses	**14,000**	13,368
Advances from customers	**10,127**	5,780
Others	**8,995**	2,856
	33,122	22,004

19. Zakat payable

19.1. The Group's zakat charge is based on the separate financial statements of the Parent Company and its subsidiaries.

19.2. The movement in the zakat provision for the year was as follows:

	2020	2019
At the beginning of the year as at January 01,	**16,252**	16,248
Provided during the year	**2,445**	2,777
Paid during the year	**(3,611)**	(2,773)
Excess provision reversed during the year	**(10,654)**	-
At the end of the year as at December 31,	**4,432**	16,252

19.3. Status of zakat assessment

The Parent Company - Naseej International Trading Company

Up to year 2012
The parent company has finalized its zakat status with GAZT for all the years till December 31, 2012.

Year 2013 and 2014
The GAZT has issued zakat differences amounting to SR 3.5 million for the year 2013 and 2014. The company has agreed to pay SR 3.5 million in installments. In addition to this the first installment amounting to SR 880K is paid against SR 3.5 million.

Notes to the consolidated financial statements for the year ended December 31, 2020
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19. Zakat payable (Continued)

19.3. Status of zakat assessment (Continued)

Year 2015 and 2016
The company has submitted zakat declaration for the year 2015 and 2016. The Company has responded to the zakat queries raised by the GAZT. The final assessment order is still in process.

Year 2017 & 2018
The company has received a claim amounting to SR 11.26 million and SR 9.98 for the year 2017 and 2018 respectively. This primarily is a disallowance of import purchases and taken in other income and zakat has been calculated accordingly. The company has objected against this assessment order and filled their objection to General Secretariat of Tax Committees (GSTC).

Year 2019
The company has filled its zakat return for the year 2019 and obtained an unrestricted certificate, valid till April 30, 2021.

Subsidiary- The Home Styles Company LLC

For the year 2012 ("GAZT") issued zakat differences with an amount SR 254 Thousands. Objection made, and still under consideration by ("GAZT"), for the years from 2013 and 2016 Zakat declarations and financial statements submitted to ("GAZT"). The zakat returns are under review by the GAZT.

Subsidiary- Millennium Weavers Group Holding LLC and Millennium Weavers LLC

The subsidiaries are registered in USA; no tax has been charged during the year as the subsidiaries have incurred losses during the year ended 31 December 2016.

20. Revenue

	2020	2019
Local	**163,291**	205,674
Export	**28,910**	26,677
	192,201	232,351

	For the year ended December 31, 2020		
	Sales	**Cost of sales**	**Gross profit**
Flooring	**161,206**	**(141,747)**	**19,459**
Non – flooring	**30,995**	**(27,967)**	**3,028**
	192,201	**(169,714)**	**22,487**

	For the year ended December 31, 2019		
	Sales	Cost of sales	Gross loss
Flooring	192,579	(197,777)	(5,198)
Non – flooring	39,772	(49,419)	(9,647)
	232,351	(247,196)	(14,845)

21. Cost of sales

	2020	2019
Raw material consumed	**84,035**	107,496
Salaries and staff related benefits	**23,484**	29,238
Depreciation	**14,109**	24,110
Fuel and power	**10,111**	8,577
Spares parts and consumables consumed	**6,782**	11,091
Others	**6,219**	17,422
Total operating cost	**146,740**	197,934
Change in inventory balance	**22,974**	49,262
	169,714	247,196

Notes to the consolidated financial statements for the year ended December 31, 2020
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22. Selling and distribution expenses

	2020	2019
Employees costs	**15,881**	18,342
Rent	**4,053**	7,318
Travel and transportation	**3,142**	2,474
Deprecation	**1,956**	2,901
Publicity and advertisement	**156**	506
Sales Commission	**1,146**	929
Insurance	**698**	1,051
Utilities	**431**	690
Repairs and maintenance	**436**	597
Governmental expenses	**347**	409
Others	**5,748**	4,311
	33,994	39,528

23. General and administrative expenses

Employees costs	**14,829**	13,704
Deprecation	**564**	906
Amortization	**856**	856
Professional fees	**2,265**	1,255
BOD remuneration and executive committees	**1,105**	470
Other	**2,442**	1,612
	22,061	18,803

24. Other income – net

Revenues from sale of property, plant and equipment	**2,990**	14,499
Startup cost written off	**(1,115)**	-
Scrap sales	**667**	-
Other revenue from affiliate (note 11.2)	**-**	14,281
Others	**17,374**	683
	19,916	29,463

25. Loss per share

Basic loss per share calculated by dividing the loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

The calculation of diluted earnings per share is not applicable to the Parent Company.

The share of the losses for the year calculated as follows:

25.1. Loss per share for the year from continuing operations

	2020	2019
Weighted average number of shares available	**(83,417)**	(116,207)
Loss per share	**15,694**	17,038
	(5.32)	(6.82)

25.2. Loss per share for the year from discontinuing operations

Weighted average number of shares available	**-**	-
Loss per share	**15,694**	17,038
	-	-

Notes to the consolidated financial statements for the year ended December 31, 2020
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25. Loss per share (Continued)

25.3. Loss per share for the year

	2020	2019
Weighted average number of shares available	**(83,417)**	(116,207)
Loss per share	**15,694**	17,038
	(5.32)	(6.82)

25.4. Loss per share – other comprehensive loss (net) for the year

Weighted average number of shares available	**(82,929)**	(117,954)
Loss per share	**15,694**	17,038
	(5.25)	(6.92)

26. Contingent liabilities

In the ordinary course of business the contingent liabilities are as follow:

Letter of credit	**779**	1,880
Letter of guarantee*	**-**	3,049

* The Group has issued letter of guarantee for various customers against contract jobs. These letter of guarantee were issued against 100% cash margin.

27. Financial risk management

The Group is exposed to the following risks.

- Market risk
- Liquidity risk
- Credit risk
- Capital risk

The Group’s principal financial liabilities, other than derivatives, comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group’s operations. The Group’s principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds investments in debt and equity instruments and enters into derivative transactions.

The board of directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The board has established a finance committee which is responsible for developing and monitoring the Group’s risk management strategy and policies. The committee reports regularly to the board of directors on its activities. There have been no changes to the Group’s exposures to risk or the methods used to measure and manage these risks during the year

The Group audit committee oversees how management monitors compliance with the Group’s risk management policies and procedures and reviews the adequacy of the risk management framework in the light of the risks faced by the Group.

Notes to the consolidated financial statements for the year ended December 31, 2020
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27. Financial risk management (Continued)

27.1. Financial instruments by category

	2020	2019
Financial assets at amortized cost:		
Trade receivables	**87,155**	95,276
Other receivables	**13,493**	5,206
Due from related party	**-**	4,214
Cash and cash equivalents	**38,493**	4,531
Total Financial assets	**139,141**	109,227
Financial liabilities at amortized cost:		
Trade payables	**39,557**	44,079
Due to related party	**21,413**	31,059
Interest-bearing loans and borrowings-current	**103,000**	167,556
Other payables	**32,122**	22,004
Interest-bearing loans and borrowings-non current	**208,149**	154,557
	404,241	419,255

27.2. Market risk management

27.2.1. Foreign exchange risk

The Group is exposed to foreign currency risk from its operating, investing and financing activities. Group Treasury manages the exposure and risk for investing and financing activities at the Group level including all material loans across the Group designated in foreign currencies.

It also monitors exposure and assists in the implementation of group risk management strategies for exposure at an individual subsidiary level. The Group's policy is to cover forward all trade commitments.

Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is not exposed to fluctuations in foreign exchange rates during its ordinary course of business, since all significant transactions of the Group during the year are in Saudi Riyals and US Dollars and there are no significant risks related to balance stated at USD Dollars since the exchange of Saudi Riyal begged to US Dollar. The Group's expo-sure to currency risk arising from currencies that are not pegged to USD is not material. The Group is exposed to currency risk on foreign debtors and foreign trade payables in Euros and GBPs. The total foreign currency risk exposure on reporting date is immaterial.
The Group's significant exposures to foreign currency risk at the reporting date stated at currency amounts were as follows:

		2020	
	United States Dollar (USD)	**Euro (EUR)**	**British Pound (GBP)**
Trade receivables	**481**	**-**	**-**
Cash and cash equivalents	**94**	**19**	**3**
Trade payables	**2,430**	**594**	**63**
Exposure at 31 December 2020	**3,005**	**613**	**66**
Estimated forecast sales	**15,540**	**710**	**-**
Estimated forecast purchases	**(12,630)**	**(5,046)**	**(834)**
Net exposure	**5,915**	**(3,723)**	**(768)**
Exchange rate			
Average for the year	**3.75**	**4.59**	**5.12**
Spot for the year	**3.75**	**4.62**	**5.11**

Notes to the consolidated financial statements for the year ended December 31, 2020
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27. Financial risk management (Continued)

27.2. Market risk management (Continued)

27.2.1. Foreign exchange risk (Continued)

	2019		
	United States Dollar (USD)	**Euro (EUR)**	**British Pound (GBP)**
Trade receivables	288	-	-
Cash and cash equivalents	10	5	1
Trade payables	5,920	713	30
Exposure at 31 December 2019	6,218	718	31
Estimated forecast sales	5,666	99	-
Estimated forecast purchases	(1,937)	(2,136)	
Net exposure	9,947	(1,319)	31
Exchange rate			
Average for the year	3.75	4.21	4.98
Spot for the year	3.75	4.62	5.11

27.2.2. Fair value and cash flow interest risk

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flows. The Group is exposed to interest rate risk on its interest bearing assets and liabilities mainly bank overdraft, bank facilities and other borrowings. Management limits the Group's interest rate risk by monitoring changes in interest rates. Management monitors the changes in interest rates and believes that the cash flow and fair value interest rate risk to the Group is not significant.

The Group's receivables and payables carried at amortized cost are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. Hence, the Group is not exposed to fair value interest rate risk.

27.3. Liquidity risk management

The Group has various commitments and obligations including significant capital expenditure and operates in some cash intensive segments and location, particularly through investment in emerging markets and revenue streams. Therefore, there is a risk that the Group may be unable to meet its short term financial demands or obligations when due.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilized borrowing facilities are maintained. Group Treasury team sets out the policy and the headroom that different business segments and revenue lines are required to maintain and ensures that there are sufficient facilities in place to meet the demands. Cash intensive capital projects are managed centrally, and borrowing are secured and maintained buy the group treasure to ensure the most appropriate facilities for the purpose and best terms.

The Board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances. At the end of the financial year, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down on its agreed overdraft facility.

(All amounts in Saudi Riyals Thousands unless otherwise stated)

27. Financial risk management (Continued)

27.3. Liquidity risk management (Continued)

The liquidity risk of each Company entity is managed centrally by the Company treasury function. Each operation has a facility with Company treasury, the amount of the facility being based on budgets. The budgets are set on individual basis and agreed by the board in advance, enabling the Company's cash requirements to be anticipated. Where facilities of Company entities need to be increased, approval must be sought from the Company management.

Liquidity was significantly constrained in 2020 and the Group was unable to pay its committed bank facilities on timely basis. We have been able to tightly manage our day to day liquidity risk in this constrained environment with existing liquidity sources and proceeds generated from fund recoveries through legal channels and disposal of old machinery. The liquidity will further improve in 2021 with the induction of SR 150 million capital through right share. The Group is under renegotiation with the bank to reschedule the loan liabilities, subsequent to year end.

The Group’s financial current liabilities consist of the current portion of bank facilities; trade accounts payable and accrued expenses and other liabilities. These liabilities are expected to be settled within 12 months of the balance sheet date and the Group expects to have adequate funds available to do so.

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

	Carrying Amount	Contractual cash flows	Less than 3 months	3 to 12 months	1- 5 years
December 31, 2020					
Interest-bearing loans and Borrowings	**311,149**	**311,149**	**9,100**	**93,900**	**208,149**
Accounts payable	**39,557**	**39,557**	**12,057**	**11,275**	**16,225**
Accrued liabilities and Other	**33,122**	**33,122**	**10,246**	**18,602**	**4,274**
Total undiscounted financial liabilities	**383,828**	**383,828**	**31,403**	**123,777**	**228,648**
December 31, 2019					
Interest-bearing loans and Borrowings	322,113	322,113	92,165	75,391	154,557
Accounts payable	44,079	44,079	13,435	12,564	18,080
Accrued liabilities and Other	22,004	22,004	6,807	12,358	2,839
Total undiscounted financial liabilities	388,196	388,196	112,407	100,313	175,476

The contractual cash flows relating to markup have been determined on the basis of weighted average markup rates on borrowings. The Group will manage the liquidity risk from its own source through working capital management. As at the year end, the Group has liquid assets of 145.6 million (2019: SR. 109 million).

27.4. Credit risk management

Credit risk arises on trade receivables and contract assets, on investments in debt securities, other receivables such as loans to related parties, cash and cash equivalents and deposits with financial institutions.

Risk of exposure to less stable markets is managed by shorter payment terms and restrictions on amount per order and depending on sector and region payments in advance. For new customers, our usual terms are suspended for the first few transactions whilst credit quality is established. We do not typically carry significant receivables balances that would be considered high risk.

(All amounts in Saudi Riyals Thousands unless otherwise stated)

27. Financial risk management (Continued)

27.4. Credit risk management (Continued)

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

	2020	2019
Trade receivables	**87,155**	95,276
Cash and cash equivalents	**38,493**	4,531
Other receivables	**13,493**	5,206
	139,141	105,013
Trade payables	**39,557**	44,079
Other payables	**10,127**	-
Interest-bearing loans and borrowings	**311,149**	322,113
	360,833	366,192

Due to Group's long standing relations with counterparties and after giving due consideration to their financial standing, the management does not expect non-performance by these counter parties on their obligations to the Group except trade debts considered doubtful.

The Group's management determines concentrations of credit risk by quarterly monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' ageing analysis. In monitoring the customers' credit risk, customers are grouped according to their credit characteristics. Customers that are graded as "high risk" are placed on a restricted customer list, and future credit sales are made only with approval of the Board of Directors, otherwise payment in advance is required.

Receivables are classified as past due if they are outstanding for more than 181 days. The aging of trade debts as at financial position date is as under:

	Carrying Amount	Not Due	181 -365 days	1-3 years	3+ years
Trade receivables – 2020	**155,920**	**43,688**	**32,380**	**41,950**	**37,902**
Trade receivables – 2019	148,195	58,129	25,293	36,862	27,911

Banking transactions are limited to branches of reputed local and international banks. Management views that the balance maintained with the banks and financial institutions with no formal rating to be high credit qualified financial institutions.

27.5. Fair values of financial instruments

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group's financial assets consist of cash and cash equivalents, accounts receivables and some other assets, while its financial liabilities consist of trade accounts payables, some accrued expenses and other liabilities. The fair values of financial instruments are not materially different from their carrying values.

27.6. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may obtain / repay financing from / to financial institutions.

(All amounts in Saudi Riyals Thousands unless otherwise stated)

27. Financial risk management (Continued)

27.6. Capital risk management (Continued)

Consistent with others in the industry, the Group manages its capital risk by monitoring its debt levels and liquid assets and keeping in view future investment requirements and expectations of the shareholders. Debt is calculated as total of long term finance and short term borrowings. Total capital comprises shareholders' equity as shown in the balance sheet under 'share capital and reserves' and net debt (net of cash and cash equivalent).

The salient information relating to capital risk management of the Group as of December 31, 2020 and 2019 and January 1, 2019 were as follows:

	2020	2019
Total debt	**456,110**	486,253
Less: cash and bank balances	**(38,493)**	(4,531)
Net debt	**417,617**	481,722
Total equity	**55,433**	33,095
Total capital employed	**473,050**	514,817
Gearing ratio	**88%**	94%

28. Impact of Covid 19

The outbreak of the novel Coronavirus (COVID-19) in early 2020 in most countries has caused widespread disruptions to business, with a consequential negative impact on economic activities. The Group is continually monitoring its impact, while working closely with the local regulatory authorities, to manage the potential business disruption of the COVID-19 outbreak.

In light of COVID-19, the Group has considered whether any adjustments and changes in judgments, estimates and risk management are required to be considered and reported in the consolidated financial statement. Below are the key assumptions about the future and other key sources of estimation that may have a significant risk of causing material adjustments to the consolidated financial statements.

Impairment of non-financial assets

The Group has considered any impairment indicators arising and any significant uncertainties around its property, plant and equipment, and right-of-use assets especially arising from any change in lease terms and concluded there is no material impact due to COVID-19.

Expected Credit Losses ("ECL") and impairment of financial assets

The Group has applied management overlays on the existing ECL models by applying probability weightage scenarios on the relevant macroeconomic factors relative to the economic climate of the respective market in which it operates. The Group has also assessed the exposures in potentially affected sectors for any indicators of impairment and concluded there is no material impact on account of COVID-19.

Commitments and contingent liabilities

The Group has assessed the impact of any operational disruptions, including any contractual challenges and changes in business or commercial relationships among customers and suppliers, with a view of potential increase in contingent liabilities and commitments and no issues were noted.

28. Impact of Covid 19 (Continued)

Going concern

The Group has performed an assessment of whether it is a going concern in the light of current economic conditions and all available information about future risks and uncertainties. The projections have been prepared covering the Group's future performance, capital and liquidity. The impact of COVID-19 may continue to evolve, but at the present time the projections show that the Group has ample resources to continue in operational existence and its going concern position remains largely unaffected and unchanged. As a result, these consolidated financial statements has been appropriately prepared on a going concern basis.

29. Comparative figures

Certain reclassifications have been made to the consolidated financial statements of prior year to conform to the current year presentation. Significant reclassification made has been made in the consolidated statement of financial position for payable to banks from short-term borrowings to non-current liability for an amount of SR xxx million as at 31 December 2019 based on the ongoing negotiation with lending banks and payment of commitment funds subsequent to the year end. As the management have reassessed in details the possible outcome of renegotiations in detail and concluded it as a payable in nature.

30. Subsequent events

In the opinion of the management, there have been no significant subsequent events since the year-end that require disclosure or adjustment in these Consolidated Financial Statements.

30.1. Increase in share capital

On September 28, 2020, the Board of Directors proposed to increase the share capital of Group by SR 150 million, through right issue of 15 million shares. This recommendation has been submitted to the concerned regulatory authorities on December 28, 2020. The Group has hired Al Wasata Al Maliah Company as a financial advisor for this purpose.

30.2. Re-scheduling of long term loans

During the year ended December 31, 2020, there has been non-compliance of certain covenants on outstanding loans and borrowings with various banks. Subsequent to year end, the management is awaiting final approval for restructuring credit facilities by the banks (except SIDF and MoF - under negotiation). Accordingly as at December 31, 2020, the management did not reclassified non-current portion of loans and borrowings to current portion. Therefore the non-current portion of loans and borrowings will not be called as at year end. (refer note 14).

31. Approved consolidated financial statements

These consolidated financial statements were approved by the Board of Directors on March 27, 2021 corresponding to Sha'aban 14, 1442H.