SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of
Saudi Paper Manufacturing Company
(A Saudi Joint Stock Company)
Dammam - Kingdom of Saudi Arabia.

Qualified Opinion

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

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

Basis of Qualified Opinion

1- Management has performed an assessment for the impairment of the Group's trade receivables as of December 31, 2019. Based on the results of this assessment, a reversal in allowance for impairment of trade receivables, amounting to SR 31.4 million, is recognised during the year ended December 31, 2019. However, management had not performed an assessment for the impairment of the Group's trade receivables as of December 31, 2018, as required by IFRS 9 - Financial instruments and has not reflected the resulting impact, if any, in the statement of financial position and statement of profit or loss for the year ended December 31, 2018. Accordingly, we are unable to determine whether any adjustment to carrying value of trade receivables, their related allowance for impairment and accumulated losses of the Group as of December 31, 2018 and results for the year ended December 31, 2019, is necessary.

2- During the year, based on a "promise to sell agreement" the Group sold one of its subsidiary, Morocco Paper Manufacturing Company (MPMC). MPMC was previously classified as held for sale as required by IFRS 5 - "Non-Current Assets Held For Sale And Discontinued Operations" (Note 1). Title of ownership, as advised by the management, was accordingly transferred to the new buyer as part of the agreement. As of December 31, 2019, balance receivable against the sale of the subsidiary amounted to SR 13.6 million, which has not been received till the date of our audit report. Management of the Company has filed a lawsuit to cancel the sale agreement and made a precautionary seizure of the factory of MPMC. As of the date of our audit report, these legal procedures were still in progress. We are unable, at this stage, to assess the recoverability of this receivable balance/investment. Accordingly, our report is qualified in this respect.

3- The Group has incurred loss amounting to SR 27.47 million during the year ended December 31, 2019 (December 31, 2018: SR 114.9 million) and has accumulated losses amounting to SR 11.8 million as of December 31, 2019 (December 31, 2018: SR 136.9 million). The management of the Company has performed an impairment assessment of its property, plant and equipment as at December 31, 2019 based on which no impairment loss has been recognised during the current year (December 31, 2018: SR 6.5 million). The assessment includes assumptions related to future sales volume, prices, annual growth rates, terminal growth rates, discount rates, net realizable value and other related factors.

   The outcome of these assumptions is highly dependent on the success of future operations and market conditions as estimated by management and achieving its plans in future.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of
Saudi Paper Manufacturing Company
(A Saudi Joint Stock Company)
Dammam - Kingdom of Saudi Arabia.

Basis for Qualified Opinion (Continued)
We are unable at this stage to assess the reasonableness of the assumptions used in the impairment assessment of the Group's assets. Management considers these assumptions to be realistic and achievable in view of its operational restructuring plan and is confident of its ability to meet these future plans. Management believes that the carrying value of its property, plant and equipment will ultimately be recovered from the future operations.

We conducted our audit in accordance with International Standards on Auditing (ISAs) as 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 as endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with its requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertaintities Related to Going Concern
We draw attention to Note 1 to the accompanying consolidated financial statements which states that as of December 31, 2019, the current liabilities of the Group exceeded its current assets by SR 198.3 million (December 31, 2018: SR 147.5 million) mainly on account of short term loans and current portion of medium and long term loans amounting to SR 140 million and SR 206.6 million, respectively (December 31, 2018: SR 134.3 million and SR 188.9 million respectively). Additionally, the group was in breach of its loans financial covenants and in default on repayment due for its term loans by SR 19.9 million as of December 31, 2019. During the year ended December 31, 2019, the Group was successful in restructuring part of its term loans with various local banks. The Group is currently in the process of negotiating for the restructuring of the remaining loans in order to resolve the breach of the loans covenants. Management believes that the Group will be successful in restructuring of loans and resolving the breach in the near future. Furthermore, management of the Company intends to revolve its short term loans in addition to obtaining new loans. Management believes that the Group would be successful in revolving its short term loans as per its past practice.

Accordingly, the accompanying consolidated financial statements are prepared on going concern basis and the loans are continued to be classified as per their original terms of repayment. Our opinion is not modified in respect of these matters.

Emphasis of Matter:
We draw attention to Note 4 of these consolidated financial statements which states that the management has engaged a third party consultant for the impairment assessment of certain unutilized assets of property, plant and equipment amounting to SR 43.7 million which were not utilized during the year ended December 31, 2019. Based on the results of this assessment, management has concluded that impairment amounting SR 3.2 million is required for these unutilized assets as of December 31, 2019 (December 31, 2018: SR 36.9 million). Management is currently assessing the alternative utilization plan for these assets. Management believes that these assets have the ability to provide future economic benefits to the Group and accordingly carrying amount of such assets will not exceed their recoverable amounts as of December 31, 2019.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of
Saudi Paper Manufacturing Company
(A Saudi Joint Stock Company)
Dammam - Kingdom of Saudi Arabia.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current 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. For matter listed below, our description on how our audit have addressed this matter is set below:

Key audit matter	**How the matter was addressed in our audit**
1- IFRS 9– "Financial instruments" (IFRS 9) and impact on the impairment allowance of financial assets	
This standard provides the guidance related to the classification and measurement of financial instruments. The basis of classification depends on the business model based on which the financial assets are managed together with its relevant contractual cash flow characteristics. IFRS 9 requires "Expected Credit Loss" model (ECL) for the calculation of allowance for impairment for financial assets. We consider this matter as a key audit matter due to level of significant judgement and assumption used by management in the calculation of impairment of financial assets based on its ECL model. Refer to note 3 to the consolidated financial statements for the accounting policy related to impairment allowance of financial instruments.	We have performed the following procedures for assessing the impact on the impairment allowance of financial assets as per requirements of IFRS 9: • Evaluated the appropriateness of the application of expected credit loss model prepared, by the Management of the Company, for the relevant financial assets by understanding the nature of the financial assets and comparing the application to the requirements of the standard; • Verified the data inputs in assessing the reasonableness of the probability of defaults (PDs) against source documents and information; • Tested key assumptions by comparing to the historical data; and • Reviewed the adequacy of the Group's disclosures as presented in the accompanying consolidated financial statements in accordance with the applicable accounting standard.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of
Saudi Paper Manufacturing Company
(A Saudi Joint Stock Company)
Dammam - Kingdom of Saudi Arabia.

Other Information Included in the Group's 2019 Annual Report
Management is responsible for the other information. The other information comprises the information included in the Company's annual report but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we 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 when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Company's By-laws and applicable requirements of company's regulations, and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Board of Directors of the Company are responsible for overseeing the Group's financial reporting process.

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

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

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of
Saudi Paper Manufacturing Company
(A Saudi Joint Stock Company)
Dammam - Kingdom of Saudi Arabia

Auditor's responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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.

INDEPENDENT AUDITOR’S REPORT (Continued)

To the shareholders of
Saudi Paper Manufacturing Company
(A Saudi Joint Stock Company)
Dammam - Kingdom of Saudi Arabia.

Auditor’s responsibilities for the Audit of the Consolidated Financial Statements (Continued)
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 year 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.

Report on Other Legal and Regulatory Requirements
Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulation for Companies in the Kingdom of Saudi Arabia and the Company’s By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

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Ibrahim Ahmed Al Bassam
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البسام وشركاؤه
محاسبون قانونيون
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Al-Bassam & Co.
Certified Public Accountants

March 31, 2020
7 Shaban 1441H

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019

	Note	December31, 2019 SR	December 31, 2018 SR (Restated) (Note 33)	January 1, 2018 SR (Restated) (Note 33)
ASSETS				
Non-current assets				
Property, plant and equipment	4	**620,330,466**	650,984,180	752,923,994
Intangible assets	5	**16,859,361**	18,334,849	19,592,197
Investment in an associate	6	**21,252,673**	19,742,172	19,138,493
Financial asset at fair value through other comprehensive income	7	-	1,067,062	1,484,520
Total non-current assets		**658,442,500**	690,128,263	793,139,204
Current assets				
Inventories	8	**89,411,044**	74,992,272	130,431,045
Trade receivables	9	**137,972,465**	163,196,022	158,697,068
Advances, prepayments and other assets	10	**37,961,932**	56,601,725	64,699,110
Cash and cash equivalents	11	**11,959,334**	22,844,638	24,248,819
Assets classified as held for sale	12	-	18,960,132	-
Total current assets		**277,304,775**	336,594,789	378,076,042
TOTAL ASSETS		**935,747,275**	1,026,723,052	1,171,215,246
EQUITY AND LIABILITIES				
Equity				
Share capital	13	**92,000,000**	245,000,000	450,000,000
Statutory reserve	1	-	-	66,248,858
Other reserves	14	**(7,475,688)**	(8,107,729)	(27,250,156)
Accumulated losses		**(11,801,606)**	(136,918,296)	(292,715,071)
Equity attributable to the shareholders of the Company		**72,722,706**	99,973,975	196,283,631
Non-controlling interest		**1,222,385**	5,425,690	4,881,894
Total equity		**73,945,091**	105,399,665	201,165,525
LIABILITIES				
Non-current liabilities				
Medium and long term loans	15	**358,824,347**	421,699,372	547,070,129
Employees' end of service benefits	16	**19,828,157**	15,542,107	18,527,674
Lease liabilities – non current portion	21	**7,569,483**	-	-
Total non-current liabilities		**386,221,987**	437,241,479	565,597,803
Current liabilities				
Short-term loans	18	**140,022,579**	134,282,289	122,161,398
Medium and long term loans – current portion	15	**206,621,768**	188,880,020	107,312,844
Trade payables	17	**69,607,261**	86,476,796	98,688,052
Accrued expenses and other liabilities	19	**42,594,780**	60,232,888	71,608,411
Provision for zakat	20	**16,208,696**	7,815,213	4,681,213
Lease liabilities – current portion	21	**525,113**	-	-
Liabilities directly associated with assets classified as held for sale	12	-	6,394,702	-
Total current liabilities		**475,580,197**	484,081,908	404,451,918
Total liabilities		**861,802,184**	921,323,387	970,049,721
TOTAL EQUITY AND LIABILITIES		**935,747,275**	1,026,723,052	1,171,215,246

These consolidated financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on March 31, 2020.

Khalid Waleed Abu Hana **Chief Financial Officer**	**Mohammed Saud Al-Bader** **Board Member**	**Fahad Mohammad Al Dawood** **Chairman**

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

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	2019 SR	2018 SR
Revenue	22	**527,126,249**	541,456,468
Cost of revenue	23	**(428,126,833)**	(458,292,880)
Gross profit		**98,999,416**	83,163,588
General and administrative expenses	24	**(47,650,732)**	(54,085,875)
Selling and distribution expenses	25	**(52,202,367)**	(53,765,048)
Reversal / (allowance) for impairment of trade receivables	9	**31,392,614**	(18,298,786)
Operating profit / (loss)		**30,538,931**	(42,986,121)
Finance charges	26	**(42,732,486)**	(39,552,412)
Share in profit of an associate	6	**3,070,501**	1,643,679
Other expenses, net	27	**(9,952,374)**	(27,195,321)
Net loss before zakat		**(19,075,428)**	(108,090,175)
Zakat	20	**(8,393,483)**	(3,134,000)
Net loss for the year from continuing operations		**(27,468,911)**	(111,224,175)
Net loss for the year from discontinued operations	12	**-**	(3,684,112)
Net loss for the year		**(27,468,911)**	(114,908,287)
Other comprehensive (loss) / income			
Items that will not be reclassified to profit or loss			
Remeasurement (loss) gain on employees' end of service benefits	16	**(2,832,782)**	2,058,045
Change in fair value of equity investments through other comprehensive income	7	**(1,067,062)**	(417,458)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations and others	14	**(85,819)**	17,501,840
Other comprehensive (loss) / income for the year		**(3,985,663)**	19,142,427
Total comprehensive loss for the year		**(31,454,574)**	(95,765,860)
Net (loss)/income attributable to:			
Owners of the Company		**(27,883,310)**	(115,452,083)
Non-controlling interest		**414,399**	543,796
Net loss for the year		**(27,468,911)**	(114,908,287)
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(27,251,269)**	(96,309,656)
Non-controlling interest		**(4,203,305)**	543,796
Total comprehensive loss for the year		**(31,454,574)**	(95,765,860)
Loss per share (SR) attributable to shareholders of the company			
Basic and diluted loss per share – continued operations	28	**(3.03)**	(12.15)
Basic and diluted loss per share for the year	28	**(3.03)**	(12.55)

The consolidated financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on March 31, 2020.

Khalid Waleed Abu Hana	Mohammed Saud Al-Bader	Fahad Mohammad Al Dawood
Chief Financial Officer	**Board Member**	**Chairman**

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

SAUDI PAPER MANUFACTURING COMPANY

(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

	Equity attributable to the shareholders of the Company						
	Share capital SR	**Statutory reserve SR**	**Other reserves SR**	**Accumulated losses SR**	**Total SR**	**Non-controlling interest SR**	**Total equity SR**
As at January 1, 2018 - as previously stated	450,000,000	66,248,858	(27,250,156)	(210,162,254)	278,836,448	4,881,894	283,718,342
Restatement (note 33)	-	-	-	(33,052,515)	(33,052,515)	-	(33,052,515)
Adjustment on adoption of IFRS 9 (note 9)	-	-	-	(49,500,302)	(49,500,302)	-	(49,500,302)
As at January 1, 2018 - as restated	450,000,000	66,248,858	(27,250,156)	(292,715,071)	196,283,631	4,881,894	201,165,525
Net (loss) / profit for the year	-	-	-	(115,452,083)	(115,452,083)	543,796	(114,908,287)
Other comprehensive income for the year	-	-	19,142,427	-	19,142,427	-	19,142,427
Total comprehensive income / (loss) for the year	-	-	19,142,427	(115,452,083)	(96,309,656)	543,796	(95,765,860)
Capital reduction (note 1)	(205,000,000)	-	-	205,000,000	-	-	-
Statutory reserve transferred to accumulated losses (note 1)	-	(66,248,858)	-	66,248,858	-	-	-
As at December 31, 2018 - as restated	245,000,000	-	(8,107,729)	(136,918,296)	99,973,975	5,425,690	105,399,665
As at January 01, 2019 - as previously stated	245,000,000	-	(8,107,729)	(103,865,781)	133,026,490	5,425,690	138,452,180
Restatement (note 33)	-	-	-	(33,052,515)	(33,052,515)		(33,052,515)
As at January 1, 2019 - as restated	245,000,000	-	(8,107,729)	(136,918,296)	99,973,975	5,425,690	105,399,665
Net (loss) / income for the year	**-**	**-**	**-**	**(27,883,310)**	**(27,883,310)**	**414,399**	**(27,468,911)**
Other comprehensive income / (loss) for the year	**-**	**-**	**632,041**	**-**	**632,041**	**(4,617,704)**	**(3,985,663)**
Total comprehensive income / (loss) for the year	**-**	**-**	**632,041**	**(27,883,310)**	**(27,251,269)**	**(4,203,305)**	**(31,454,574)**
Capital reduction (note 1)	**(153,000,000)**	**-**	**-**	**153,000,000**	**-**	**-**	**-**
As at December 31, 2019	**92,000,000**	**-**	**(7,475,688)**	**(11,801,606)**	**72,722,706**	**1,222,385**	**73,945,091**

The consolidated financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on March 31, 2020.

Khalid Waleed Abu Hana
Chief Financial Officer

Mohammed Saud Al-Bader
Board Member

Fahad Mohammad Al Dawood
Chairman

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

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	December 31, 2019 SR	December 31, 2018 SR
Cash flow from operating activities		
Net loss for the year – continuing operations	**(27,468,911)**	(111,224,175)
Net loss for the year – discontinuing operations	**-**	(3,684,112)
Adjustments for:		
Depreciation of property, plant and equipment	**50,317,043**	54,476,902
Impairment loss on property, plant and equipment	**3,223,329**	45,871,678
(Reversal of) / allowance for impairment of trade receivables, net	**(31,392,614)**	18,298,786
Finance charges	**42,732,486**	39,552,412
Zakat expense	**8,393,483**	3,134,000
Allowance for slow moving inventories	**-**	6,111,704
Share in profit of an associate	**(3,070,501)**	(1,643,679)
Amortization of intangible assets	**1,475,488**	1,462,472
Gain on sale of property, plant and equipment	**(1,215,656)**	(137,538)
Loss on disposal of a subsidiary	**3,237,232**	17,004,721
Provision for employees' end of service benefits	**3,750,047**	3,325,099
	49,981,426	72,548,270
Changes in operating assets and liabilities:		
Trade receivables	**56,616,171**	(22,797,740)
Inventories	**(14,418,772)**	29,805,444
Advances, prepayments and other assets	**25,028,333**	6,789,720
Trade payables	**(16,869,535)**	(6,710,684)
Accrued expenses and other liabilities	**(21,189,145)**	(14,361,524)
Cash generated from operating activities	**79,148,478**	65,273,486
Finance charges paid	**(38,777,918)**	(35,672,281)
Employees' end of service benefits paid	**(2,296,779)**	(4,252,621)
Net cash generated from operating activities	**38,073,781**	25,348,584
Cash flow from investing activities		
Purchase of property, plant and equipment	**(11,353,825)**	(9,205,629)
Dividend received from an associate	**1,560,000**	1,040,000
Additions to intangible assets	**-**	(233,968)
Proceeds from disposal of net assets of a subsidiary	**-**	16,051,822
Proceeds from disposal of property, plant and equipment	**1,216,453**	234,868
Net cash flows (used in) generated from investing activities	**(8,577,372)**	7,887,093
Cash flow from financing activities		
Lease payments	**(903,200)**	-
Change in short term loans, net	**5,740,290**	12,120,891
Change in medium and long term loans, net	**(45,133,277)**	(43,803,581)
Net cash used in financing activities	**(40,296,187)**	(31,682,690)
Net change in cash and cash equivalents	**(10,799,778)**	1,552,987
Cash and cash equivalents at the beginning of the year	**22,844,638**	24,248,819
Effect of exchange rate fluctuations	**(85,526)**	(2,957,168)
Cash and cash equivalents at the end of the year	**11,959,334**	22,844,638

Supplemental cash flow information 34

The consolidated financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on March 31, 2020

Khalid Waleed Abu Hana	**Mohammed Saud Al-Bader**	**Fahad Mohammad Al Dawood**
Chief Financial Officer	**Board Member**	**Chairman**

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Paper Manufacturing Company ("the Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 2050028141 issued in Dammam on Muharram 10, 1415H (June 20, 1994). The Company's share capital is SR 92 million divided into 9.2 million shares of SR 10 each.

The principal activities of the Company and its subsidiaries (the "Group"), each of which operates under individual commercial registration, are to manufacture tissue paper rolls, convert tissue paper rolls into facial, kitchen and toilet tissue papers and collect, sort, transport and press waste papers.

The Company's registered office is P.O. Box 2598, Unit number 2, Dammam 34326-7169, the Kingdom of Saudi Arabia.

During the year, the shareholders in their extraordinary general meeting held on November 4, 2019 approved recommendation of the Board of Directors of the Company to reduce the share capital of the Company from SR 245,000,000 to SR 92,000,000 for the purpose of restructuring of the share capital of the Company to absorb the accumulated losses of the Company and support its future growth. As a result, total number of shares of the Company was reduced from 24,500,000 to 9,200,000 by way of cancellation of shares and the capital was accordingly reduced to SR 92 million. Following the capital reduction, the Board recommended to increase the share capital of the Company through right issue by SR 150 million in order to strengthen the financial position of the Group and to improve liquidity and working capital needs.

In 2018, the shareholders in their extraordinary general meeting held on September 10, 2018 approved recommendation of the Board of Directors of the Company to reduce the share capital of the Company from SR 450,000,000 to SR 245,000,000 for the purpose of restructuring of the share capital of the Company to absorb the accumulated losses of the Company and support its future growth. As a result, total number of shares of the Company was reduced from 45,000,000 to 24,500,000 by way of cancellation of shares and the capital was accordingly reduced to SR 245 million. In 2018, the shareholders resolved to transfer statutory reserve available amounting to SR 66 million for absorption of accumulated losses as at December 31, 2018.

The current liabilities of the Group exceeded its current assets by SR 198.3 million (December 31, 2018: SR 147.5) mainly on account of short term loans and current portion of medium and long term loans amounting to SR 140 million and SR 206.6 million, respectively (December 31, 2018: SR 134.3 million and SR 188.9 million respectively). Additionally, the group was in breach of its loans financial covenants and in default on repayment due for its term loans by SR 19.9 million as of December 31, 2019. During the year ended December 31, 2019, the Group was successful in restructuring part of its term loans with various local banks. The Group is currently in the process of negotiating for the restructuring of the remaining loans in order to resolve the breach of the loans covenants. Management believes that the Group will be successful in restructuring of loans and resolving the breach in the near future. Furthermore, management of the Company intends to revolve its short term loans in addition to obtaining new loans. Management believes that the Group would be successful in revolving its short term loans as per its past practice. Accordingly, these consolidated financial statements are prepared on going concern basis and the loans are continued to be classified as per their original terms of repayment.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

1.1 Structure of the group

The consolidated financial statements include the financial statements of the Company and its subsidiaries ("The Group') as listed below:

Subsidiary	Country of incorporation	Ownership percentage at December 31, 2019	2018
Saudi Recycling Company	Saudi Arabia	**100%**	100%
Saudi Paper Converting Company	Saudi Arabia	**100%**	100%
Saudi Investment and Industrial Development Company	Saudi Arabia	**100%**	100%
Al Madar Paper Trading (Al Madar)	UAE	**100%**	100%
Al Madar Paper Trading	Morocco	**100%**	100%
Al Madar Paper Trading	Jordan	**100%**	100%
Saudi Paper Converting Company Jordan	Jordan	**100%**	100%
Al Madar Paper	Algeria	**100%**	100%
Al - Juthoor Paper Tissue Manufacturing Plant	Kuwait	**85%**	85%
Morocco Paper Manufacturing Company	Morocco	**-**	100%

In 2018, two of above mentioned subsidiaries i.e. Al Madar Paper Trading (Al Madar) and Morocco Paper Manufacturing Company (MPMC) were classified as held for sale as required by IFRS 5 – "Non-Current Assets Held For Sale And Discontinued Operations". During the year, based on a "promise to sell agreement" the Group sold one of its subsidiary, Morocco Paper Manufacturing Company (MPMC). The balance receivable against the sale is presented under advances, prepayments and other assets. The other subsidiary i.e. Al Madar Paper Trading is not classified as "Held For Sale" as of December 31, 2019 due to changes in plan to sell the subsidiary.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of accounting

These consolidated financial statements have been prepared on the historical cost convention, except where IFRS requires other measurement basis as disclosed in the applicable accounting policies in note 3 of the consolidated financial statements.

The preparation of these consolidated financial statements in conformity with IFRSs required management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts in the consolidated financial statements. These critical accounting judgements and key sources of estimations are disclosed in note 3.23.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyal (SR), which is the Group's functional and presentation currency.

2. BASIS OF PREPARATION (Continued)

2.4 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the "Group" as detailed in note 1.1. Control is achieved when the Group**:**

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

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

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

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

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

Consolidated statement of profit or loss and each component of other comprehensive income are attributed to the shareholders of the Company and non- controlling interest. Total comprehensive income of subsidiaries is wholly attributed to the shareholders of the Company except the comprehensive income of Al – Juthoor subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

2.5 New standards, amendments to standards and interpretations

The Group has adopted IFRS-16 Leases from January 1, 2019. The impact of adoption of IFRS 16 is disclosed in the note 2.7. A number of other new standards, interpretations and amendments to the standards are effective from January 1, 2019, but they don't have material effect on the Group's consolidated financial statements.

IFRS 9 - Amendments, Prepayment features with negative compensation
IAS 28 - Amendment, long-term Interests in Associates and Joint Ventures
IAS 19 - Plan Amendment, Curtailment or Settlement
IFRIC 23 - Uncertainty over Income Tax Treatments
IFRSs 2015–2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

2. BASIS OF PREPARATION (Continued)

2.6 New standards, amendments to standards and interpretation that have been issued but are not yet effective

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

New and revised IFRSs	Description	Effective for annual years beginning on or after
IFRS 17	Insurance Contracts	January 1, 2022
Amendments to IAS 1 and IAS 8	Definition of material	January 1, 2020
Amendments to IFRS 3	Definition of business	January 1, 2020
The Conceptual Framework for Financial Reporting	Amendments to references to References to Conceptual Framework in IFRS Standards and updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform	January 1, 2020
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A

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

2.7 Change in significant accounting policy

IFRS 16 – Leases

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

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

In accordance with the transition provisions in IFRS 16, the Group has adopted IFRS 16 retrospectively with the cumulative effect of initially applying the new standard recognised on January 1, 2019. Comparatives for 2018 financial year have not been restated.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5%.

2. BASIS OF PREPARATION (Continued)

2.7 Change in significant accounting policy (Continued)

Impact of adoption of IFRS 16

	January 1, 2019 SR
Operating lease commitments as at December 31, 2018	11,677,601
Discounted using the group's incremental borrowing rate of 5%	8,594,265
Lease liability recognised as at January 1, 2019	8,594,265

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rule had always been applied as of January 1, 2019. Right-of-use assets for property leases were measured at the amount equal to lease liability, adjusted by the amount of prepayments related to that leases recognized in the statement of financial position as at December 31, 2018. Property, plant and equipment increased by an amount of SR 8,650,545 and prepayments reduced by SR 56,280 on January 1, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies applied by the Group.

3.1 Property, plant and equipment

Property, plant and equipment are stated at their cost less accumulated depreciation and accumulated impairment losses.

Properties in the course of construction are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property and equipment (except freehold land and building under construction) are depreciated over its useful lives using the straight line method.

The estimated useful life of the principal classes of assets are as follows:

Class of assets	No of Years
- Buildings and land improvements	25 – 33
- Plant, machinery and equipment	5 – 25
- Furniture, fixtures and office equipment	5 – 15
- Vehicles	4 – 8

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Property, plant and equipment (Continued)

I. Capitalization of costs under PPE

The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Capital work in progress represents the accumulated costs incurred by the group in relation to the construction of its building and structures in the development stage. Cost incurred are initially charged to the capital work in progress then these costs are transferred to property, plant and equipment when the construction of these facilities are completed. Finance costs on borrowings attributable to the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

II. Derecognition of property, plant and equipment

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

III. Capital Spare Parts (CSP)

The Group classifies CSPs into critical spare parts (strategic spare parts) and general spare parts using the below guidance:

- A critical spare part is one that is on “stand-by”, i.e. probable to be a major item / part critical to be kept on hand to ensure uninterrupted operation of production. They would normally be used only due to a breakdown, and are not generally expected to be used on a routine basis. Depreciation on critical spares commences immediately on the date of purchase.

- General spare parts are other major spare parts not considered critical and are bought in advance due to planned replacement schedules (in line with prescribed maintenance program) to replace existing major spare parts with new parts that are in operation. Such items are considered to be “available for use” only at a future date, and hence depreciation commences when it is installed as a replacement part. The depreciation period for such general capital spares is over the lesser of its useful life, and the remaining expected useful life of the equipment to which it is associated.

3.2 Intangible assets

Intangible assets anticipated to provide identifiable future benefits are classified as non-current assets. Intangible assets comprise of goodwill and computer softwares. Enterprise resource planning (ERP) system development costs represent costs incurred to implement new system and are amortized over 7-year period from the date it is fully implemented. For goodwill, refer to note 5.2.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

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

3.4 Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, includes the Group’s share of the profit or loss and Other Comprehensive Income (OCI) of equity accounted investees, until the date on which significant influence ceases.

3.5 Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials, packing material and spare parts at weighted average cost basis; cost comprises all costs of purchases and other costs incurred in bringing the inventories to their present location and condition.
- Finished goods and work-in-process at weighted average cost basis: these include cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Net realizable value (NRV) is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Allowance is made for slow moving inventories.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held with the bank, all of which have maturities of 90 days or less and are available for use by the Group unless otherwise stated. Bank overdraft if any, is shown under line item borrowings.

3.7 Financial Instruments

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Group classified its investments in unquoted equity securities under fair value through other comprehensive income category from available for sale investments.

Financial Asset at amortized cost
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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

Business model assessment
The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group’s management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group’s stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case’ scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading, if any, and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Financial Instruments (Continued)

Assessments whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin. Financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (OCI).

Financial assets at fair value through other comprehensive income (FVOCI)

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flow represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI).

Financial assets at fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Interest Rate (EIR).

De-recognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Impairment

The impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The impairment methodology is generally dependent on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach as required by IFRS 9.

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Financial Instruments (Continued)

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

Effective interest rate method

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

3.8 Discontinued operations and non-current assets held for sale

The results of discontinued operations are presented separately in the statement of profit and loss and other comprehensive income. Non-current assets (or disposal groups) are classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

Non-current assets (or disposal groups) are classified as held for sale it their carrying amount will be recovered through a sale transaction rather than through continuing use. This is the case when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and the sale is considered to be highly probable.

A sale is considered to be highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and an active program to locate a buyer and complete the plan has been initiated. Further, the asset (or disposal group) has been actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale is expected to qualify for recognition as a completed sale within one-year from the date that it is classified as held for sale.

Non-current assets held for sale are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of the disposal group continued to be recognized.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

3.9 Foreign Currency translations

Transactions denominated in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of each reporting period are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences on monetary items are recognized in the consolidated statement of profit and loss and other comprehensive income in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to consolidated statement of profit or loss on repayment of the monetary items.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Foreign Currency translations (Continued)

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to statement of profit or loss. In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognized in the statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to statement of profit or loss and other comprehensive income.

3.10 Group entities

The results and financial position of foreign subsidiaries having reporting currencies other than the presentation currency of the parent company, are translated into functional currency as follows:

(i) Assets and liabilities for each reporting period presented are translated at the closing exchange rates prevailing at the end of reporting period.

(ii) Income and expenses from each reporting period are translated at average exchange rates and;

(iii) Components of the equity accounts are translated at the exchange rates in effect of the dates of the related items originated. Cumulative adjustments resulting from the translations are reported in other comprehensive income and are reported in a separate component of equity as "Currency translation differences".

3.11 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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

3.12 Right-of-use assets

The Group recognises 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 recognised, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and restoration costs. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over underlying asset's useful life. Right-of-use assets are subject to impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Lease liabilities

At the commencement date of the lease, the Group recognises 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 Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the year on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Incremental rate is the rate that the individual lessee would 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. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit and loss over the lease period so as to produce constant periodic rate of interest on the remaining balance of the liability of each year.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of rented properties (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3.14 Employee benefits

I. Short term employees' benefits

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave 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 consolidated statement of financial position.

II. Employee end of service benefits (EOSB)

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The liability recognized in consolidated statement of financial position in respect of employee benefits is the present value of defined benefits obligation at the end of reporting period.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Employee benefits (Continued)

Defined benefit costs are categorized as follows:

Service cost

Service costs includes 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 consolidated statement of profit or loss and other comprehensive income as past service costs.

Interest cost

Interest cost is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability. 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 period in which they occur, directly in other comprehensive income

3.15 Revenue from contract with customers

The Group recognizes revenue when a customer obtains controls of the goods at a point in time i.e. on delivery and acknowledgement of goods, using the five-step model. This includes:

a) Identification of a contract with a customer, i.e., agreements with the Company that creates enforceable rights and obligations.

b) Identification of the performance obligations in the contract, i.e., promises in such contracts to transfer products or services.

c) Determination of the transaction price which shall be the amount of consideration the Company will expect to be entitled to in exchange for fulfilling its performance obligations (and excluding any amounts collected on behalf of third parties).

d) Allocation of the transaction price to each identified performance obligation based on the relative stand-alone estimated selling price of the products or services provided to the customer.

e) Recognition of revenue when/as a performance obligation is satisfied, i.e., when the promised products or services are transferred to the customer and the customer obtains control. This may be over time or at a point in time.

Revenue shall be measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described above must also be met before revenue is recognized. Where there are no specific criteria, above policy will apply and revenue is recorded as earned and accrued.

Revenue is recognized upon delivery or shipment of the products in accordance with the contract terms by which the control of the goods/ products is transferred to the customers and the Group has no effective control over or continuing management involvement over these goods.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Other income

Other income comprises of insurance recoveries and dividends received. Insurance recoveries are recognized in consolidated profit and loss as and when received. Dividend income is recognized in consolidated profit or loss on the date on which the Group's right to receive the payment is established.

3.17 Borrowing costs

Borrowing costs are recognised in consolidated profit and loss account in the period in which these are incurred except to the extent of borrowing costs on long term finances that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalised, during the period of time that is required to complete and prepare the asset for its intended use.

3.18 Zakat and income tax

The Group is subject to the regulations of the General Authority of Zakat and Income Tax ("GAZT") in the kingdom of Saudi Arabia. Moreover, the subsidiaries are subject to the relevant laws relating to income tax in the countries where they conduct their activities. Zakat is calculated on accrual basis. Zakat is calculated on the higher of zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

3.19 Statutory reserve

In accordance with regulations for companies in Saudi Arabia and the by-laws of the Company, the Group has established a statutory reserve by the appropriation of 10% of net income, if available after absorption of accumulated losses, until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

3.20 Dividend

Dividends are recognized as liability at the time of their approval in the annual general assembly meeting. Interim dividends are recorded as and when approved by the board of directors.

3.21 Expenses

Expenses are classified according to their function as part of cost of sales, or the cost of selling and marketing or administrative activities. Selling, distribution, general and administrative expenses include indirect costs not specifically part of production costs as required as per generally accepted accounting principles. Allocations between selling, marketing, general and administrative expenses and production costs, when required are made on a consistent basis.

3.22 Operating Segment

(a) Business segment

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

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

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Critical accounting judgments and key sources of estimation uncertainty

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Impairment of financial assets including trade receivables

The loss allowances for trade and other receivables are based on assumptions about risk of default and unexpected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Provision for slow moving inventory items

The management makes a provision for slow moving and obsolete 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 statement of financial position date to the extent that such events confirm conditions existing at the end of year.

Provisions and contingencies

A provision for incurred liabilities is recognized when the Group has a present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resource will be required to settle the obligation and the amount has been reliably estimated.

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly with in the control of the Group; or all present obligations arising from past events but not recognized because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; assessed at each statement of financial position date and disclosed in the Group's financial statements under contingent liabilities.

Impairment of non-financial assets

Non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-current assets other than intangible assets and that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of profit or loss. Impairment losses recognized on Goodwill are not reversible.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Critical accounting judgments and key sources of estimation uncertainty (Continued)

Useful lives of property, plant and equipment

The management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

Estimation of defined benefit obligation

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

Leases

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group ‘would have to pay’, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity specific estimates.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

4. PROPERTY, PLANT AND EQUIPMENT

2019	**Lands, buildings and improvements SR**	**Right of use asset SR**	**Plant, machinery and equipment SR**	**Furniture fixtures and office equipment SR**	**Vehicles SR**	**Capital work in progress SR**	**Total SR**
Cost:							
As at January 1, 2019- as restated (Note 33)	**289,954,856**	-	**1,082,722,971**	**16,292,927**	**35,858,534**	**3,404,698**	**1,428,233,986**
Additions during the year	123,387	-	5,605,388	357,517	348,050	4,919,483	11,353,825
Right of use asset	-	8,650,545	-	-	-	-	8,650,545
Assets reclassified from held for sale under IFRS 5 (note 12)	1,575,905	-	-	4,147	-	1,303,327	2,883,379
Transfers	-	-	1,893,090	-	-	(1,893,090)	-
Effect of movements in exchange rates	5,138	-	(1,660)	-	-	(3,105)	373
Disposals / write offs during the year	-	-	(1,054)	(1,038)	(50,097)	-	(52,189)
As at December 31, 2019	**291,659,286**	**8,650,545**	**1,090,218,735**	**16,653,553**	**36,156,487**	**7,731,313**	**1,451,069,919**
Depreciation and Impairment:							
As at January 1, 2019	**(97,803,019)**	-	**(631,476,451)**	**(14,777,951)**	**(33,192,385)**	-	**(777,249,806)**
Depreciation for the year	(7,897,819)	-	(40,010,945)	(444,909)	(1,218,020)	-	(49,571,693)
Depreciation for the year on right of use assets	-	(745,350)	-	-	-	-	(745,350)
Impairment for the year	-	-	(3,223,329)	-	-	-	(3,223,329)
Disposals / write offs	-	-	111	517	50,097	-	50,725
As at December 31, 2019	**(105,700,838)**	**(745,350)**	**(674,710,614)**	**(15,222,343)**	**(34,360,308)**	**-**	**(830,739,453)**
Net book value:							
As at December 31, 2019	**185,958,448**	**7,905,195**	**415,508,121**	**1,431,210**	**1,796,179**	**7,731,313**	**620,330,466**

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

2018	**Lands, buildings and improvements SR**	**Plant, machinery and equipment SR**	**Furniture fixtures and office equipment SR**	**Vehicles SR**	**Capital work in progress SR**	**Total SR**
Cost:						
As at January 1, 2018- as restated (Note 33)	316,050,756	1,057,757,616	16,338,834	38,389,556	16,485,774	1,445,022,536
Reclassification	-	19,521,625	-	-	-	19,521,625
Additions during the year	253,850	6,120,046	348,759	310,768	2,172,206	9,205,629
Transfers	-	6,397,145	-	-	(6,397,145)	-
Assets classified as held for sale (note 12)	(15,961,389)	(3,218,956)	(303,958)	-	(8,856,137)	(28,340,440)
Effect of movements in exchange rates	19,644	(112,232)	(2,103)	(45,896)	-	(140,587)
Disposals / write offs during the year	(10,408,005)	(3,742,273)	(88,605)	(2,795,894)	-	(17,034,777)
As at December 31, 2018- as restated (Note 33)	289,954,856	1,082,722,971	16,292,927	35,858,534	3,404,698	1,428,233,986
Depreciation and Impairment:						
As at January 1, 2018	(97,474,512)	(546,029,985)	(14,404,400)	(34,189,645)	-	(692,098,542)
Depreciation for the year	(8,574,612)	(43,575,209)	(526,980)	(1,800,101)	-	(54,476,902)
Impairment for the year	-	(45,871,678)	-	-	-	(45,871,678)
Assets classified as held for sale (note 12)	8,045,522	2,556,818	114,477	-	-	10,716,817
Effect of movements in exchange rates	-	58,839	1,933	33,736	-	94,508
Disposals / write offs	200,583	1,384,764	37,019	2,763,625	-	4,385,991
As at December 31, 2018	(97,803,019)	(631,476,451)	(14,777,951)	(33,192,385)	-	(777,249,806)
Net book value:						
As at December 31, 2018- as restated (Note 33)	192,151,837	451,246,520	1,514,976	2,666,149	3,404,698	650,984,180

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.1 Allocation of depreciation

	Note	2019 SR	2018 SR
Cost of sales	23	**48,436,647**	47,710,275
General and administrative expenses	24	**1,880,396**	6,766,627
Total		**50,317,043**	54,476,902

4.2 Impairment on working plant and machinery

The management of the Company has performed an impairment assessment of its property, plant and equipment as at December 31, 2019 based on which no impairment loss has been recognised during the current year (December 31, 2018: SR 6.5 million). The assessment includes assumptions related to future sales volume, prices, annual growth rates, terminal growth rates, discount rates, net realizable value and other related factors. The outcome of these assumptions is highly dependent on the success of future operations as estimated by management, market conditions and achieving its plans in future. Management considers these assumptions to be realistic and achievable in view of its operational restructuring plan and is confident of its ability to meet these future plans. Management believes that the carrying value of its property, plant and equipment will ultimately be recovered from the future operations.

4.3 Impact of unutilized plant and machinery

The management has engaged a third party consultant for the impairment assessment of certain unutilized assets of property, plant and equipment amounting to SR 43.7 million (December 31, 2018: SR 84 million) which were not utilized during the year ended December 31, 2019. Based on the results of this assessment, management has concluded that impairment amounting SR 3.2 million is required for these unutilized assets as of December 31, 2019 (December 31, 2018: SR 36.9 million). Management is currently assessing the alternative utilization plan for these assets. Management believes that these assets have the ability to provide future economic benefits to the Group and accordingly carrying amount of such assets will not exceed their recoverable amounts as of December 31, 2019.

In addition to above, in 2018, the Group also tested one of its non-performing subsidiary for impairment and recognised an impairment loss of SR 2.5 million.

4.4 Security

At December 31, 2019 and 2018, properties having a net book value equal to SIDF loan carrying amount are mortgage with SIDF. (Note 15)

4.5 Leased hold land

Plant and machinery of the Group in Kingdom of Saudi Arabia is constructed on leased hold land.

4.6 Right of use

The Group has right of use for the leased hold land.

5. INTANGIBLE ASSETS

	Note	2019 SR	2018 SR
Definite useful life			
Computer softwares	5.1	**4,429,697**	5,905,185
Indefinite useful life			
Goodwill	5.2	**12,429,664**	12,429,664
		16,859,361	18,334,849

5.1 Movement in computer softwares with definite useful life is as follows:

	Note	December 31, 2019 SR	December 31, 2018 SR
Opening balance		**5,905,185**	7,162,533
Additions		**-**	233,968
Transfer to assets classified as held for sales	12	**-**	(28,844)
Amortization	23	**(1,475,488)**	(1,462,472)
Closing balance		**4,429,697**	5,905,185

5.2 Goodwill

This represents goodwill of Saudi Riyals 12.4 million recorded on acquisition of the equity interests in Al-Juthoor in the prior years.

The recoverable amount of the CGU was based on fair value less costs of disposal, estimated using discounted cash flows. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

The discount rate was estimated based on the weighted-average cost of capital, at a rate of 9.3%.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make.

Budgeted EBITDA was estimated taking into account past experience, adjusted by revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated sales volume and price growth for the next five years.

6. INVESTMENT IN AN ASSOCIATE

Investment in an associate at December 31, 2019 and 2018 represents the Group's 26% equity interest in East Gas Company (the Associate), a limited liability Company registered in Kingdom of Saudi Arabia. The Associate is principally involved in distribution of natural gas, maintenance and operating of industrial facilities and wholesale trade in machines and equipment of gas.

The Group has determined that it has significant influence because it has representation on the board of the investee. Movement in investment in an associate is as follows:

	2019 SR	2018 SR
January 1,	**19,742,172**	19,138,493
Share in profit of an associate	**3,070,501**	2,572,038
Dividends received from the associate	**(1,560,000)**	(1,040,000)
IFRS Adjustments	**-**	(928,359)
December 31,	**21,252,673**	19,742,172

The tables below provide summarised financial information for the Associate. The information disclosed reflects the amounts presented in the financial statements of the Associate and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method if any, including fair value adjustments and modifications for differences in accounting policy as needed.

	2019 SR	2018 SR
Non-current assets	**66,601,643**	65,409,876
Current assets (excluding cash and cash equivalents)	**24,263,514**	22,615,455
Cash and cash equivalents	**3,741,184**	3,408,542
Total current assets	**28,004,698**	26,023,997
Non-current liabilities	**(1,157,230)**	(1,216,907)
Current financial liabilities (excluding trade payables and provisions)	**-**	(5,000,000)
Other current liabilities	**(11,343,756)**	(9,239,805)
Total current liabilities	**(11,343,756)**	(14,239,805)
Net Assets	**82,105,355**	75,977,161

Summarized statement of profit or loss of the Associate:

	December 31, 2019 SR	December 31, 2018 SR
Revenue	**82,528,085**	68,221,066
Depreciation and amortization	**(6,538,526)**	(6,419,394)
Finance cost	**(614,420)**	(530,292)
Zakat	**(454,115)**	(257,263)
Profit before zakat	**12,391,960**	10,149,715
Profit after zakat	**11,937,845**	9,892,452
Other comprehensive income	**190,350**	25,822
Total comprehensive income	**12,128,195**	9,918,274

The Group has no contingent liabilities or capital commitments relating to its interest in the associate as at December 31, 2019.

6. INVESTMENT IN AN ASSOCIATE (Continued)

The associate has a contingent liability for bank guarantees issued in the normal course of the business amounting SR 18.9 million as at December 31, 2019 (December 31, 2018: SR 19 million).

During the year, the associate has declared and paid dividends amounting to SR 1.56 million (2018: 1 million).

7. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group has investment at fair value through other comprehensive income invested in unlisted securities (Mena Shipco Limited). This investment is classified as level 3 and fair value is determined using Net Asset Value (NAV). During the year, the investment has been fully impaired based on the valuation received.

8. INVENTORIES

	Note	2019 SR	2018 SR
Stores and spare parts and other consumables		**47,640,186**	45,119,155
Raw materials		**32,362,878**	28,453,810
Finished goods		**28,040,485**	20,909,511
Work in progress		**1,447,969**	862,809
		109,491,518	95,345,285
Allowance for slow moving inventories	8.1	**(20,080,474)**	(20,353,013)
		89,411,044	74,992,272

8.1 The movement in allowance for slow moving inventories during the year ended is as follows:

	Note	December 31, 2019 SR	December 31, 2018 SR
Opening balance		**20,353,013**	14,241,309
Provision for the year	23	**-**	6,111,704
Write offs during the year		**(272,539)**	-
		20,080,474	20,353,013

9. TRADE RECEIVABLES

	Note	2019 SR	2018 SR
Trade receivables		**241,652,582**	301,927,337
Allowance for impairment of receivables	9.1	**(103,680,117)**	(138,731,315)
		137,972,465	163,196,022

9.1 The movement in allowance for impairment of receivables during the year ended is as follows:

	December 31, 2019 SR	December 31, 2018 SR
Opening balance	**138,731,315**	70,932,227
Impact of IFRS 9 adoption	**-**	49,500,302
Charge for the year	**5,750,000**	28,235,283
Write offs during the year	**(3,658,584)**	-
Reversals during the year	**(37,142,614)**	(9,936,497)
	103,680,117	138,731,315

9.2 Management has performed an assessment for the impairment of Group's trade receivables as of December 31, 2019. Based on the results of this assessment, a reversal in allowance for impairment of trade receivables, amounting to SR 31.4 million, is recognized during the year ended December 31, 2019.

9. TRADE RECEIVABLES (Continued)

9.3 Aging analysis of trade receivables

	Total	Neither past due nor impaired	< 31 days	31 – 60 days	61 – 90 days	91 – 120 days	>120 days
December 31, 2019	**241,652,582**	**32,672,410**	**11,550,388**	**16,868,589**	**28,332,075**	**13,833,875**	**138,395,245**
December 31, 2018	301,927,337	125,853,987	12,133,077	10,824,732	8,037,572	7,930,384	137,147,585

Information about the Group's exposure to credit and market risks, and impairment losses for trade receivables, is included in note 32.

10. ADVANCES, PREPAYMENTS AND OTHER ASSETS

	Note	2019 SR	2018 SR
Advances to suppliers		**11,855,845**	33,516,985
Receivable on sale of a subsidiary	1,12	**13,654,067**	-
Prepaid expenses		**2,900,426**	5,249,757
Insurance claim receivable		**1,518,808**	4,062,004
Employees housing and other advances		**1,179,345**	827,185
Refundable deposits		**873,206**	881,000
Vat tax – net		**544,854**	1,240,639
Receivable from a third party		**-**	6,875,000
Others		**5,435,381**	3,949,155
		37,961,932	56,601,725

11. CASH AND CASH EQUIVALENTS

	Note	2019 SR	2018 SR
Cash at banks - current accounts	11.1	**9,633,745**	20,354,548
Cash in hand		**2,325,589**	2,490,090
		11,959,334	22,844,638

11.1 The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year. The table below provides details of cash at bank placed in various currencies.

	2019 SR	2018 SR
SAR	**5,438,773**	9,331,541
KUW	**1,540,888**	7,199,700
DZD	**2,924,159**	4,026,668
USD	**(392,460)**	(325,719)
Others	**122,385**	122,358
	9,633,745	20,354,548

12. ASSETS CLASSIFIED AS HELD FOR SALE

As mentioned in note 1, in 2018, two of Group subsidiaries i.e. Al Madar Paper Trading (Al Madar) and Morocco Paper Manufacturing Company (MPMC) were classified as held for sale as required by IFRS 5 – “Non-Current Assets Held For Sale And Discontinued Operations”. During the year, based on a “promise to sell agreement” the Group sold one of its subsidiary, Morocco Paper Manufacturing Company (MPMC). The balance receivable against the sale is presented under advances, prepayments and other assets. The other subsidiary i.e. Al Madar Paper Trading is not classified as “Held For Sale” as of December 31, 2019 due to changes in plan to sell the subsidiary.

12.1 *Assets classified as held for sale*

	2018 SR
Property, plant and equipment	17,623,623
Intangible assets	28,844
Prepayments and other receivables	1,307,665
Total assets	18,960,132

12.2 *Liabilities directly associated with assets classified as held for sale*

Trade and other payables	5,500,572
Accrued expenses and other liabilities	894,130
Total liabilities	6,394,702

12.3 *Net loss for the year from discontinued operations*

	December 31, 2018 SR
Expenses	(3,684,112)
Loss from discontinued operations	(3,684,112)

13. SHARE CAPITAL

As at December 31, 2019, the share capital of the Company was SR 92,000,000 (December 31, 2018: SR 245,000,000) divided into 9,200,000 shares (December 31, 2018: 24,500,000 shares) of SR 10 each (see note 1).

14. OTHER RESERVES

These reserves include change in fair value of financial assets through OCI, remeasurement gain / (loss) on employees’ end of service benefits and translation reserves due to consolidation of foreign subsidiaries at year end from their presentation currencies to Saudi Riyals.

15. MEDIUM AND LONG TERM LOANS

	Note	2019 SR	2018 SR
Commercial bank loans	15.2	**526,173,663**	563,335,542
Saudi Industrial Development Fund ("SIDF") loans	15.1	**39,272,452**	47,243,850
		565,446,115	610,579,392
Medium and long term loans – current portion		**(206,621,768)**	(188,880,020)
		358,824,347	421,699,372

15.1 SIDF loans

These represent loans obtained from SIDF by the Company and one of its Saudi Arabian subsidiary. The covenants of the loan agreements require the Company and such subsidiary to maintain certain levels of financial condition, place limitations on dividends distributions and on annual capital and rental expenditures.

The loans do not bear financial charges, however, an upfront fee is charged on the loan and these are secured by mortgaged on property, plant and equipment of the Company and the subsidiary equal to the carrying amount of the loan.

15.2 Commercial bank loans

The Group has obtained loan facilities both long term and short term of SR 682.1 million from various commercial banks. These loans are mainly denominated in Saudi Riyals which generally bear financial charges based on prevailing market rates. The aggregate maturities of the loans outstanding at December 31, 2019, based on their respective repayment schedules, are spread in 2019 through 2026.

The covenants of some of these facilities require the Group to maintain certain level of financial conditions, require lenders' prior approval for dividends distribution above a certain amount and certain other requirements. The information is summarized in the table below.

	Nominal interest rate	Year of maturity	2019 SR	2018 SR
Alinma Bank	SAIBOR + 2.25%	2018-23	**193,728,268**	244,074,314
Riyadh Bank	SAIBOR + 2%	2018-26	**163,594,560**	136,598,759
Al-Rajhi Bank	SAIBOR + 2%	2019-21	**78,670,706**	79,126,333
Saudi Investment Bank	SAIBOR + 2%	2018-20	**42,074,717**	45,769,847
Samba Bank	SAIBOR + 2%	2016-23	**21,237,355**	21,409,169
Saudi British Bank	SAIBOR + 2%	2016-20	**12,570,944**	19,000,000
Aljazeera Bank	SAIBOR + 2%	2018-21	**8,297,113**	10,593,343
Arab National Bank	SAIBOR + 2%	2016-20	**6,000,000**	6,763,777
			526,173,663	563,335,542

These bank loans are secured against promissory notes amounting to SR 729.3 million (2018: SR 815 million).

During the year, certain loans amounting to SR 75.3 million (2018: SR 46.5 million) from different commercial banks were restructured.

15. MEDIUM AND LONG TERM LOANS (Continued)

15.2 Commercial bank loans (Continued)

Information about the Group's exposure to interest rate and liquidity risks is included in Note 32.

15.3 Maturity profile of long-term borrowings

	2019 SR	2018 SR
2019	**-**	188,880,020
2020	**206,621,768**	132,966,580
2021	**113,182,227**	129,398,121
2022	**89,336,000**	105,748,671
2023	**73,586,000**	53,586,000
2024	**30,500,000**	-
2025	**24,000,000**	-
2026	**28,220,120**	-
	565,446,115	610,579,392

The Group has not complied with the covenant requirements of maintaining certain financial ratios of some of its loan agreements. However, management believes that the group will be successful in restructuring current portion of its medium and long term loans.

16. EMPLOYEES' END OF SERVICE BENEFITS

The movement in the present value of defined benefit obligation is as follows:

	For the year ended December 31, 2019 SR	For the year ended December 31, 2018 SR
Opening balance	**15,542,107**	18,527,674
Charged to consolidated profit or loss:		
- Current service cost	**3,049,971**	2,609,895
- Interest cost	**700,076**	715,204
	3,750,047	3,325,099
Charged to consolidated statement of other comprehensive income:		
Actuarial remeasurement loss / (gain)	**2,832,782**	(2,058,045)
Paid during the year	**(2,296,779)**	(4,252,621)
Closing balance	**19,828,157**	15,542,107

16. EMPLOYEES' END OF SERVICE BENEFITS (Continued)

16.1 The details of the actuarial valuation under the projected unit credit method as at December 31, for unfunded gratuity scheme is as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Discount rate per annum used for calculation of obligation	3.10%	4.45%
Salary increment rate used for calculation of obligation	3.00%	3.00%
Mortality rates (from mortality table)	WHO SA16-75%	WHO SA16-75%
Employee turnover (withdrawal rate)	Moderate	Moderate

16.2 Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	December 31, 2019		December 31, 2018	
	Increase	**Decrease**	Increase	Decrease
	(0.5% movement)		(1% movement)	
Discount rate	18,465,635	20,345,789	14,851,605	16,268,622
Future salary growth	20,341,861	18,460,551	16,275,627	14,839,105

17. TRADE PAYABLES

	Note	**2019 SR**	2018 SR
Non-related parties		**66,719,922**	81,820,750
Related parties	30	**2,887,339**	4,656,046
		69,607,261	86,476,796

18. SHORT TERM LOANS

These include short-term loans and liabilities against letter of credit refinancing obtained from various commercial banks and bear financial charges at prevailing market rates which are based on inter-bank offer rate.

The covenants of certain of the short-term bank borrowings require the Group to maintain certain level of financial conditions.

As at December 31, 2019, the Group has unused bank financing facilities amounting to SR 2.9 million (2018: SR 2.42 million).

19. ACCRUED EXPENSES AND OTHER LIABILITIES

	2019 SR	2018 SR
Employee benefits accrual	**13,807,022**	21,791,549
Accrued sales commission and rebates	**6,111,290**	10,131,483
Provision for marketing expenses	**5,621,484**	5,559,478
Accrued legal and professional expenses	**3,189,565**	3,012,959
Accrued clearing cost	**2,845,656**	2,162,154
Accrued transportation cost	**2,618,547**	837,626
Accrual for utilities	**2,241,710**	7,103,001
Advances from customers	**196,835**	741,104
Others	**5,962,671**	8,893,534
	42,594,780	60,232,888

20. PROVISION FOR ZAKAT

The Company is subject to Zakat in the Kingdom of Saudi Arabia in accordance with Saudi Arabia fiscal regulation.

a) Principal elements of zakat base are as follows:

	2019 **SR**	2018 (Restated) SR
Non-current assets	**658,442,500**	690,128,263
Inventory- Spare parts machinery and equipment	**47,640,186**	45,119,155
Non-current liabilities	**386,221,987**	437,241,479
Opening shareholders' equity	**99,973,975**	196,283,631
Net loss before zakat	**19,075,428**	108,090,175

b) Movement in Zakat provision for the year ended as follows:

	2019 **SR**	2018 SR
January 1	**7,815,213**	4,681,213
Provision for the year	**8,393,483**	3,134,000
December 31	**16,208,696**	7,815,213

c) Status of assessments

Pursuant to the requirements of Circular No. 36025/9/1437 issued by the General Authority of Zakat and Tax ("GAZT") in 2016, the Group had filed combined zakat declaration based on the combined audited financial statements combining the results of parent company and its resident and non-resident wholly owned subsidiaries for the financial year ended December 31, 2018.

GAZT) has issued final assessments up to 2005. Final assessments for the years 2006 to 2007 amounting to SR 2.1 million have been received, and an objection has been submitted based on the requirement of GAZT in prior year. From 2008 to 2018, GAZT has accepted zakat returns filed by the Group and issued zakat certificates based upon those returns. However, the final zakat assessments are yet to be issued for these years by the GAZT.

21. LEASE LIABILITIES

The Group has lease liabilities related to factory lands. With the exception of short-term leases, each lease is presented as a lease liability on the statement of financial position. Lease term period of lands is 20 years with fixed payment terms.

Each lease imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right of use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. These leases contain an option to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security.

	December 31, 2019 **Lands** **SR**
Opening balance – January 1, 2019	-
Impact of adoption of IFRS 16 (note 2.7)	8,594,265
Opening balance (Restated)	8,594,265
Interest accrued during the year (note 26)	403,531
Lease liability settled during the year	(903,200)
Closing balance	8,094,596

21. LEASE LIABILITIES (Continued)

	December 31, 2019 **SR**	January 1, 2019 SR
Current	**525,113**	903,200
Non-current	**7,569,483**	7,691,065
	8,094,596	8,594,265

As at December 31, 2019, lease payments and finance charges related to lease liabilities are as follows:

	Current **SR**	**1-5 years** **SR**	**6-10 years** **SR**	**11-19 years** **SR**	**Total** **SR**
Lease payments	903,200	4,516,000	3,447,200	1,908,000	**10,774,400**
Finance charges	(378,087)	(1,460,836)	(727,441)	(113,440)	**(2,679,804)**
Net present values	525,113	3,055,164	2,719,759	1,794,560	**8,094,596**

The Group has short term and low value lease arrangements and expenses for the year was SR 2.08 million.

22. REVENUE

	2019 **SR**	2018 SR
Manufacturing	**505,390,014**	510,427,965
Trading and others	**21,736,235**	31,028,503
	527,126,249	541,456,468

23. COST OF REVENUE

	Note	**2019** **SR**	2018 SR
Raw materials, consumables and change in finished products		**283,891,354**	304,328,443
Depreciation	4.1	**48,436,647**	47,710,275
Utilities		**36,530,221**	34,948,338
Salaries, wages and other employees' benefits		**30,775,855**	34,831,722
Maintenance		**14,059,051**	13,227,916
Insurance		**3,545,634**	3,356,287
Amortization	5	**1,475,488**	1,462,472
Impairment loss on property, plant and equipment		**-**	6,454,057
Allowance for slow moving inventories	8.1	**-**	6,111,704
Lease rentals		**1,366,673**	2,998,167
Others		**8,045,910**	2,863,499
		428,126,833	458,292,880

24. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	**2019** **SR**	2018 SR
Salaries, wages and other employees' benefits		**32,658,547**	34,126,766
Depreciation	4.1	**1,880,396**	6,766,627
Legal, professional and consultancy services		**2,675,897**	2,794,883
Communication and IT services		**2,078,816**	1,964,899
Travelling		**1,256,723**	768,068
Government charges and fees		**921,526**	1,365,582
Rent		**298,244**	1,794,005
Repair and maintenance		**408,010**	868,442
Others		**5,472,573**	3,636,603
		47,650,732	54,085,875

25. SELLING AND DISTRIBUTION EXPENSES

	2019 SR	2018 SR
Salaries, wages and other employees' benefits	**13,368,934**	20,848,665
Transportation and logistics cost	**15,911,388**	15,124,134
Marketing expenses	**8,953,788**	7,686,847
Sales vehicles rent	**2,037,705**	2,369,310
Warehouse rent	**1,070,609**	1,514,314
Others	**10,859,943**	6,221,778
	52,202,367	53,765,048

26. FINANCE CHARGES

	2019 SR	2018 SR
Mark-up on:		
- Long term borrowings	**29,365,248**	29,011,893
- Short term borrowings	**7,655,241**	6,307,530
Bank and other charges	**5,308,466**	4,232,989
Interest on lease liability	**403,531**	-
	42,732,486	39,552,412

27. OTHER EXPENSES, NET

	Note	2019 SR	2018 SR
Impairment loss on property, plant and equipment	4.3	**3,223,329**	36,930,523
Loss on disposal of a subsidiary	27.1	**3,237,232**	17,004,721
Reversal of creditors balance		**(2,656,140)**	(15,655,492)
Provision against other receivable		**6,875,000**	-
Others		**(727,047)**	(11,084,431)
		9,952,374	27,195,321

27.1 In 2018, the Group has sold net assets of its fully owned subsidiary in Turkey. Net assets of the subsidiary sold were SR 33.05 million and the sale proceeds received were SR 16.05 resulting a loss amounting to SR 17 million. During 2019, the Group has sold net asset of a subsidiary in Morocco and recognized a loss of SR 3.2 million (note 1).

28. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. With regard to diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all diluted potential ordinary shares.

Loss per share are represented as follows:

	2019 SR	2018 SR
Loss for the year	**(27,883,310)**	(115,452,083)
Loss for the year from continuing operations	**(27,883,310)**	(111,767,971)
Weighted average number of outstanding shares	**9,200,000**	9,200,000
Basic/ diluted loss per share (SR) for loss for the year	**(3.03)**	(12.55)
Basic/ diluted loss per share (SR) - continuing operations	**(3.03)**	(12.15)

29. OPERATING SEGMENTS

a. Basis for segmentation

The Group has the following strategic divisions, which are its reportable segments. These divisions offer different products and services, and are managed separately because they require different technology and marketing strategies.

The following summary describes the operations of each reportable segment that met the quantitative thresholds for reportable segments in 2019 and 2018.

Reportable segments	Operations
Manufacturing	Buying, manufacturing and distributing pulp and paper
Trading, transporting and other	Collecting, sorting, transporting and pressing waste papers

The Group's Chief Executive Officer reviews the internal management reports of each division at least quarterly.

There are varying levels of integration between the both the segments. This integration includes transfers of recycled raw materials and shared distribution services, respectively. Inter-segment pricing is determined on an arm's length basis.

b. Information about reportable segments

Information related to each reportable segment is set out below. Segment loss before Zakat is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

For the year ended December 31, 2019	Reportable segments		
	Manufacturing	**Trading and others**	**Total**
Segment revenue	**635,177,997**	**42,536,552**	**677,714,549**
Inter-segment revenue	**(129,787,983)**	**(20,800,317)**	**(150,588,300)**
External revenue	**505,390,014**	**21,736,235**	**527,126,249**
Segment loss before zakat	**(13,852,676)**	**(5,222,752)**	**(19,075,428)**
Finance cost	**41,291,484**	**1,441,002**	**42,732,486**
Depreciation and amortization	**49,765,812**	**2,026,719**	**51,792,531**
Segment assets	**883,487,379**	**52,259,896**	**935,747,275**
Segment liabilities	**820,556,846**	**41,245,338**	**861,802,184**

For the year ended December 31, 2018	Reportable segments		
	Manufacturing	**Trading, transport and others**	**Total**
Segment revenue	655,214,996	54,608,566	709,823,562
Inter-segment revenue	(144,787,031)	(23,580,063)	(168,367,094)
External revenue	510,427,965	31,028,503	541,456,468
Segment loss before zakat	(108,624,513)	(3,149,774)	(111,774,287)
Finance cost	38,829,843	722,569	39,552,412
Depreciation and amortization	54,520,012	1,419,362	55,939,374
Segment assets– as restated	940,709,875	86,013,177	1,026,723,052
Segment liabilities	844,457,827	76,865,560	921,323,387

29. OPERATING SEGMENTS (Continued)

c. Geographic information

The business of the Group is managed on a worldwide basis. However, the main operations are settled in Kingdom of Saudi Arabia, certain Gulf Cooperation Council (GCC) countries and certain other countries.

The geographic information analyses the Group's revenue and non-current assets by the Company's country of domicile and other countries.

	December 31, 2019 SR	December 31, 2018 (Restated) SR
- Revenue		
Saudi Arabia	**470,623,988**	475,824,093
GCC countries	**40,102,612**	43,919,849
Other countries	**16,399,649**	21,712,526
Consolidated revenue	**527,126,249**	541,456,468
- Non-current assets		
Saudi Arabia	**612,401,517**	673,325,826
GCC countries	**35,140,102**	8,379,043
Other countries	**10,900,881**	8,423,394
Consolidated Non-current assets	**658,442,500**	690,128,263

30. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The related parties consist of subsidiaries, affiliates and Board of Directors and key management personnel. In the ordinary course of business, the Group transacts with its related parties. Such transactions relate to services rendered and received and expenses incurred on behalf of related parties. The transactions are dealt with on mutually agreed terms and the terms and conditions on these transactions are approved by the Group's management.

Key management personnel compensation

	For the year ended December 31, 2019	**For the year ended December 31, 2018**
Short-term employees benefits	**7,176,200**	8,414,785
Employees' end of service benefits	**288,975**	322,363
	7,465,175	8,737,148

Compensation of the Group's key management personnel includes salaries, non-cash benefits and contributions to a post-employment defined benefit plan.

Payable balance to key management personnel as of year end amounted to SR 1.4 million.

Other related parties transactions

During the year ended December 31, the Company had the following significant transactions with its related parties:

Related party	**Relationship**	**Nature of transaction**	**Amount SR**	**Balance SR**
2019:				
East Gas Limited	Associate	Purchase of gas	**6,777,102**	**2,887,339**
		Dividend received	**1,560,000**	
2018:				
East Gas Limited	Associate	Purchase of gas	6,291,140	4,656,046
Falcum Financial Services Company	Shareholder	Consultation fee	150,000	-
		Dividend received	1,040,000	

31. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Group is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When measuring the fair value, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.
Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of December 31, 2019 and 2018, all of the Group's financial instruments have been carried at amortised cost except for financial assets at fair value through OCI which have been carried at fair value under level 3 fair value hierarchy i.e. based on unobservable inputs and which were fully written off during the year. The carrying values of all other financial assets and financial liabilities in the consolidated financial statements approximates to their fair values.

32. FINANCIAL RISK MANAGEMENT

The Group finances its operations through equity, borrowing and management of working capital with a view to maintain an appropriate mix between various sources of finance to minimize risk. Taken as a whole the Group's risk arising from financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments. Financial instruments of the Group are as under:

Financial instruments by categories

(i) Financial assets

	At fair value through OCI	Amortized Cost	Total
December 31, 2019:			
Trade receivables	**-**	**137,972,465**	**137,972,465**
Other receivables	**-**	**21,481,462**	**21,481,462**
Cash and cash equivalents	**-**	**11,959,334**	**11,959,334**
	-	**171,413,261**	**171,413,261**
December 31, 2018:			
Financial assets at fair value through OCI	1,067,062	-	1,067,062
Trade receivables	-	163,196,022	163,196,022
Other receivables	-	15,767,159	15,767,159
Cash and cash equivalents	-	22,844,638	22,844,638
	1,067,062	201,807,819	202,874,881

32. FINANCIAL RISK MANAGEMENT (Continued)

(ii) Financial liabilities

	At amortized cost	Total
As at December 31, 2019:		
Long term loans	**565,446,115**	**565,446,115**
Short term loans	**140,022,579**	**140,022,579**
Trade payables	**69,607,261**	**69,607,261**
Lease liabilities	**8,094,596**	**8,094,596**
Accrued expenses and other liabilities	**42,397,945**	**42,397,945**
	825,568,496	**825,568,496**
As at December 31, 2018:		
Long term loans	610,579,392	610,579,392
Short term loans	134,282,289	134,282,289
Trade payables	86,476,796	86,476,796
Accrued and other liabilities	59,491,784	59,491,784
	890,830,261	890,830,261

The Group has exposure to the following risks from financial instrument:

a. credit risk
b. liquidity risk
c. market risk
d. operational risk

The Board of Directors of the Group has the overall responsibility for establishment and oversight of the Group's risk management framework. To assist the Board in discharging its oversight responsibility, the management has been made responsible for identifying, monitoring and managing the Group's financial risk exposure. The Group's overall risk management program focuses on the under predictability of financial markets and seek to minimize potential adverse effects on the Group's financial performance.

The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board oversees how management monitors compliance with the Group’s risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers and other receivables.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

32. FINANCIAL RISK MANAGEMENT (Continued)

	2019 SR	2018 SR
Trade receivables	**241,652,582**	301,927,337
Other receivables	**21,481,462**	15,767,159
Balances with banks	**9,633,745**	20,354,548
	272,767,789	338,049,044

Trade receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate.

The Group management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information, industry information, and in some cases bank references. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from the risk management committee.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one to three months for individual and corporate customers respectively.

The Group is closely monitoring the economic environment in the Middle east and is taking actions to limit its exposure to customers in countries experiencing particular economic volatility.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables.

At December 31, the maximum exposure to credit risk for trade receivables by geographic region was as follows:

	2019 SR	2018 SR
Kingdom of Saudi Arabia	**229,853,121**	288,529,502
Kuwait	**10,578,478**	11,618,466
Algeria	**1,049,503**	1,607,905
United Arab Emirates	**148,536**	148,536
Jordan	**22,944**	22,928
	241,652,582	301,927,337

At December 31, the maximum exposure to credit risk for trade receivables by type of counterparty was as follows.

	2019 SR	2018 SR
Business to business	**143,995,429**	180,217,961
Wholesale customers	**73,770,591**	91,842,428
Retail customers	**23,488,756**	29,332,878
Other	**397,806**	534,070
	241,652,582	301,927,337

32. FINANCIAL RISK MANAGEMENT (Continued)

Cash and cash equivalents

The cash and cash equivalents are held with bank and financial institution counterparties, which are rated as follows;

	Rating Short-term	Rating Long-term	Rating agency	December 31, 2019	December 31, 2018
Al Awwal Bank	A3	P-2	Moody's	**29,095**	-
Al Rajhi bank	A1	-	Moody's	**96,395**	785,350
Arab National Bank	A2	A	CI ratings	**-**	-
Bank Aljazeera	F2	A-	Fitch	**1,628**	-
Banque Saudi Fransi	A1	P-1	Moody's	**250,463**	175,117
Bank Alinma	F2	A-	Fitch	**125,115**	676,027
National Commercial Bank	F1	A-	Fitch	**3,458,661**	6,234,854
Riyadh Bank	F2	A-	Fitch	**782,541**	708,988
Saudi British Bank	A1	P-1	Moody's	**-**	235,284
Saudi Investment Bank	A3	P-2	Moody's	**-**	-
Saudi American Bank	A1	P-1	Moody's	**392,387**	48,320
Foreign subsidiaries banks and others	-	-	-	**4,497,460**	11,490,608
				9,633,745	20,354,548

b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the maturities of financial liabilities at the reporting date.

As at December 31, 2019	**Carrying amount**	**Less than one year**	**One to five years**	**More than five years**
Long term loans	**565,446,115**	**206,621,768**	**358,824,347**	**-**
Short term loans	**140,022,579**	**140,022,579**	**-**	**-**
Trade payables	**69,607,261**	**69,607,261**	**-**	**-**
Lease liabilities	**8,094,596**	**525,113**	**3,055,164**	**4,514,319**
Accrued expenses and other liabilities	**42,397,945**	**42,397,945**	**-**	**-**
	825,568,496	**459,174,666**	**361,879,511**	**4,514,319**

As at December 31, 2018	Carrying amount	Less than one year	One to five years	More than five years
Long term loans	610,579,392	188,880,020	421,699,372	-
Short term loans	134,282,289	134,282,289	-	-
Trade payables	86,476,796	86,476,796	-	-
Accrued expenses and other liabilities	59,491,784	59,491,784	-	-
	890,830,261	469,130,889	421,699,372	**-**

32. FINANCIAL RISK MANAGEMENT (Continued)

c. Market risk

Market risk is the risk that changes in market interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk management
Interest rate risk management arises from the possibility of changes in interest rates which may affect the value of financial instruments. The Group has long term and short term borrowings at variable rates. Group is exposed to interest rates risk on its borrowings. At the balance sheet date, the interest rate profile of the Group's interest bearing financial instruments is:

	2019	2018
	SR	SR
Fixed rate instruments:		
Financial liabilities		
Long term loans	**565,446,115**	610,579,392
Short term loans	**140,022,579**	134,282,289
	705,468,694	744,861,681

Foreign exchange risk management
Foreign exchange risk is the risk that the value of financial asset or a liability will fluctuate due to change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions entered into foreign currencies. Currently, the Group's foreign exchange risk exposure is restricted to the amounts receivable / payable from / to the foreign entities and outstanding letters of credit and bills payable. These are mainly denominated in Euros, GBP Pound sterling and "United States Dollar "USD". USD is paged with SR at USD 1 to SR 3.75.

d. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Group's activities, either internally within the Group or externally at the Group's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of operation behaviour. Operational risks arise from all the Group's activities.

The Group's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation while achieving its objectives of becoming a profitable organisation, producing high quality products and generating returns for investors. Primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors.

e. Capital risk management

The objective of the Group when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other shareholders and to maintain a strong base to support the sustained development of its business.

The Group manages its capital structure by monitoring return on net assets and make adjustments to in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payable to the shareholders or issue new shares.

The Group finances its expansion projects through equity, borrowings and management of its working capital with a view to maintain an appropriate mix between various sources of finance to minimize risk.

32. FINANCIAL RISK MANAGEMENT (Continued)

The gearing ratios at December 31 were as follows:

	2019	2018
	SR	SR
		(Restated)
Interest bearing loans and borrowings	**705,468,694**	744,861,681
Less: cash and cash equivalents	**(11,959,334)**	(22,844,638)
Net debt	**693,509,360**	722,017,043
Total equity	**73,945,091**	105,399,665
Net debt to equity ratio (in times)	**9.38**	6.85

33. RESTATEMENT

In the year end 2018 and first two quarters of year 2019, our auditor's report included qualification with respect to the appropriateness of the accounting treatment by the Company for sale and repurchase of lands made during years 2012-2016. During the year ended December 31, 2019, the management of the Company has restated, retrospectively, the carrying value of its land based on the study performed by an independent party appointed by management of the Company. As a result of this restatement, the carrying value of the land has been reduced to its historic cost and the accumulated losses of the Company have increased retrospectively by SR 33,052,515. The study and the restatement was approved by Board of Directors of the Company on September 29, 2019. The impact of this adjustment is presented below:

Consolidated Statement of financial position and Consolidated statement of changes in equity as of December 31, 2018

	Balances as previously reported (Audited) SR	**Restatement SR**	**Balances as restated SR**
Property, plant and equipment	684,036,695	(33,052,515)	650,984,180
Accumulated losses	103,865,781	33,052,515	136,918,296

Consolidated Statement of financial position and Consolidated statement of changes in equity as of January 1, 2018

	Balances as previously reported (Audited) SR	**Restatement SR**	**Balances as restated SR**
Property, plant and equipment	785,976,509	(33,052,515)	752,923,994
Accumulated losses	259,662,556	33,052,515	292,715,071

34. SUPPLEMENTAL CASHFLOW INFORMATION

	December 31, 2019	December 31,2018
	SR	SR
Right of use assets	**8,091,460**	-
Receivable on disposal of a subsidiary previously classified as held for sale	**13,654,065**	-
Cash flows from discontinued operations	-	12,565,430
Reclassification of assets from inventory to PPE	-	19,521,625

35. CONTINGENCIES AND COMMITMENTS

As of December 31, 2019, the Group was contingently liable for letter of credits and bank guarantees issued in the normal course of the business amounting to SR 14.9 million (December 31, 2018: SR 17.6 million) and SR 0.53 million (December 31, 2018: SR 1.03 million) respectively.

36. SUBSEQUENT EVENTS

Coronavirus disease (COVID-19) has spread across the nationwide causing disruption to businesses and economies. The Group considers this to be a non-adjusting post balance sheet date event and it is not possible to accurately estimate the potential financial impact on the Group as of now. The Group is currently assessing the financial impacts and the results will be reflected in three months' period ended March 31, 2020 interim consolidated financial statements, if any.

In the opinion of the management, there have been no other significant subsequent events since the year end that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.

37. COMPARATIVE FIGURES

Certain reclassifications were made to the 2018 figures to conform to the current year's presentation.

38. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 31, 2020 corresponding to 7 Shaban, 1441H.