ALMUNAJEM COLD STORES COMPANY
(A LIMITED LIABILITY COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

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(A LIMITED LIABILITY COMPANY)

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For the year ended 31 December 2018

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS TO THE PARTNERS OF ALMUNAJEM COLD STORES COMPANY
(A Limited Liability Company)

Opinion
We have audited the financial statements of Almunajem Cold Stores Company - (A Limited Liability Company) (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

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

Emphasis of Matter
We draw attention to note (2) to the financial statements, which sets out that the accompanying financial statements have been prepared by the Company for inclusion in a prospectus for the purposes of an Initial Public Offering (IPO). The Company has issued their statutory financial statements for the year ended 31 December 2018 which were prepared in accordance with International Financial Reporting Standards for Small and medium-sized enterprises (SMEs) ("IFRS for SMEs"), and we issued our Audit report thereon on 25 April 2019. Our opinion is not modified in respect of this matter.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's Articles of Association, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The management is responsible for overseeing the Company's financial reporting process.

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

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS TO THE PARTNERS OF ALMUNAJEM COLD STORES COMPANY
(A Limited Liability Company) - continued

Auditor's Responsibilities for the Audit of the Financial Statements (continued)
As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company'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 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 Company to cease to continue as a going concern.

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

We communicate with the management 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.

for Ernst & Young

Fahad M. Al-Toaimi
Certified Public Accountant
License No. 354

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

Riyadh: 24 Rajab 1442 H
(8 March 2021)

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	**31 December 2018**	31 December 2017 Restated (Note 6)	1 January 2017 Restated (Note 6)
		SR	SR	SR
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	7	**304,999,103**	301,189,803	303,890,374
Intangible assets	8	**5,850,239**	5,613,739	7,488,974
TOTAL NON-CURRENT ASSETS		**310,849,342**	306,803,542	311,379,348
CURRENT ASSETS				
Inventories	15	**345,454,909**	381,200,376	412,442,552
Right of return assets	14.1	**594,551**	637,838	640,756
Trade receivables	10	**193,669,893**	179,020,165	188,006,727
Due from related parties	13	**70,933,382**	7,222,815	13,893,393
Prepayments and other assets	12	**4,002,712**	3,278,005	4,279,391
Other current financial assets	11	**13,756,920**	116,244,526	51,349,007
Bank balances and cash	9	**28,346,521**	27,244,385	18,780,348
TOTAL CURRENT ASSETS		**656,758,888**	714,848,110	689,392,174
TOTAL ASSETS		**967,608,230**	1,021,651,652	1,000,771,522
PARTNERS’ EQUITY AND LIABILITIES				
PARTNERS’ EQUITY				
Capital	16	**150,000,000**	150,000,000	150,000,000
Statutory reserve		**75,000,000**	75,000,000	75,000,000
Actuarial valuation reserve		**2,341,455**	441,327	-
Retained earnings		**251,037,623**	307,650,147	194,396,262
TOTAL PARTNERS’ EQUITY		**478,379,078**	533,091,474	419,396,262
NON-CURRENT LIABILITY				
Employees' defined benefit liabilities	17	**27,612,127**	26,813,559	26,444,407
TOTAL NON-CURRENT LIABILITY		**27,612,127**	26,813,559	26,444,407
CURRENT LIABILITIES				
Trade payables, accruals and other payables	18	**183,609,259**	181,749,482	178,005,783
Due to related parties	13	**72,886**	55,104	772,367
Due to a partner	13	**111,770,382**	111,524,995	112,620,659
Refund liabilities	14.1	**723,292**	832,900	848,239
Short term loans	19	**160,000,000**	161,000,000	245,000,000
Zakat payable	20	**5,441,206**	6,584,138	17,683,805
TOTAL CURRENT LIABILITIES		**461,617,025**	461,746,619	554,930,853
TOTAL LIABILITIES		**489,229,152**	488,560,178	581,375,260
TOTAL LIABILITIES AND PARTNERS’ EQUITY		**967,608,230**	1,021,651,652	1,000,771,522

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	***2018*** *SR*	*2017 Restated (Note 6) SR*
Revenues	14	**2,497,344,873**	2,482,240,242
Cost of revenues		**(2,085,475,627)**	(2,098,315,739)
GROSS PROFIT		**411,869,246**	383,924,503
Selling and distribution expenses	21	**(207,241,181)**	(201,572,587)
General and administrative expenses	22	**(20,252,831)**	(20,357,693)
		(227,494,012)	(221,930,280)
OPERATING PROFIT		**184,375,234**	161,994,223
Other (loss)/income, net	23	**(22,612,234)**	1,507,444
Finance costs	24	**(6,847,167)**	(5,410,301)
PROFIT BEFORE ZAKAT FOR THE YEAR		**154,915,833**	158,091,366
Zakat	20	**(5,441,206)**	5,162,519
PROFIT FOR THE YEAR		**149,474,627**	163,253,885
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of employees' defined benefits liabilities	17	**1,900,128**	441,327
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**151,374,755**	163,695,212
Earnings per share			
Earnings per share attributable to ordinary equity holders of the Company (basic and diluted)	26	**996.50**	1,088.36

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Capital *SR*	*Statutory reserve* *SR*	*Actuarial valuation reserve (note 17)* *SR*	*Retained earnings* *SR*	*Total* *SR*
Balance at 31 December 2016 (IFRS for SME)	150,000,000	75,000,000	-	190,703,336	415,703,336
Impact of applying full IFRS (note 6)	-	-	-	3,692,926	3,692,926
As at 1 January 2017 (restated)	150,000,000	75,000,000	-	194,396,262	419,396,262
Profit for the year	-	-		163,253,885	163,253,885
Other comprehensive income	-	-	441,327		441,327
Total comprehensive income	-	-	441,327	163,253,885	163,695,212
Dividends (note 27)	-	-	-	(50,000,000)	(50,000,000)
As at 31 December 2017 (restated)	150,000,000	75,000,000	441,327	307,650,147	533,091,474
Profit for the year	-	-		149,474,627	149,474,627
Other comprehensive income	-	-	1,900,128		1,900,128
Total comprehensive income	-	-	1,900,128	149,474,627	151,374,755
Dividends (note 27)	-	-	-	(206,087,151)	(206,087,151)
As at 31 December 2018	**150,000,000**	**75,000,000**	**2,341,455**	**251,037,623**	**478,379,078**

The attached notes 1 to 32 form part of these financial statements.

ALMUNAJEM COLD STORES COMPANY
(A LIMITED LIABILITY COMPANY)

STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	2018 SR	2017 (Restated Note 6) SR
OPERATING ACTIVITIES			
Profit before zakat		**154,915,833**	158,091,366
Non-cash adjustments to reconcile profit before zakat to net cash flows from operating activities			
Depreciation	7	**25,840,303**	25,117,504
Amortization of intangible assets	8	**1,877,479**	1,945,940
Interest on employees' defined benefit liabilities	24	**997,361**	936,585
Interest charged on short term loans	24	**5,849,806**	4,473,716
Allowance for expected credit losses on trade receivables	10	**2,056,686**	2,742,147
Allowance for expected credit losses on other current financial assets	11	**1,657,889**	-
Gain on disposal of property, plant and equipment	23	**(604,118)**	(678,649)
Loss on property, plant and equipment related to fire loss	7	**4,117,306**	-
Employees' defined benefit liabilities	17	**3,210,019**	3,454,819
		199,918,564	196,083,428
Working capital adjustments:			
(Increase) decrease in trade receivable		**(16,706,414)**	6,244,415
Decrease (increase) in other current financial assets		**100,829,717**	(64,895,519)
(Increase) decrease in prepayments and other assets		**(724,707)**	1,001,386
Decrease in inventories		**35,745,467**	31,242,176
Decrease in right of return assets		**43,287**	2,918
Increase in trade payables, accruals, other payables		**1,913,913**	3,829,445
Decrease in refund liabilities		**(109,608)**	(15,339)
Increase (decrease) in due to related parties		**17,782**	(717,263)
(Increase) decrease in due from related parties		**(63,710,567)**	6,670,578
		257,217,434	179,446,225
Finance costs paid		**(5,903,942)**	(4,559,462)
Employees' defined benefit liabilities paid	17	**(1,508,684)**	(3,580,925)
Zakat paid	20	**(6,584,138)**	(5,937,148)
Net cash from operating activities		**243,220,670**	165,368,690
INVESTING ACTIVITIES			
Payments for purchase of property, plant and equipment	7	**(33,768,192)**	(23,248,624)
Proceeds from disposal of property, plant and equipment		**605,401**	1,510,340
Payments for purchase of intangible assets	8	**(2,113,979)**	(70,705)
Net cash used in investing activities		**(35,276,770)**	(21,808,989)
FINANCING ACTIVITIES			
Amounts received from a partner		**845,270**	845,270
Payments to a partner		**(599,883)**	(1,940,934)
Proceeds from short term loans		**4,798,000,000**	4,474,000,000
Repayments of short-term loans		**(4,799,000,000)**	(4,558,000,000)
Dividends paid	27	**(206,087,151)**	(50,000,000)
Net cash used in financing activities		**(206,841,764)**	(135,095,664)
Increase in bank balances and cash		**1,102,136**	8,464,037
Bank balances and cash at the beginning of the year	9	**27,244,385**	18,780,348
Bank balances and cash at the end of the year	9	**28,346,521**	27,244,385

1. ORGANISATION AND ACTIVITIES

Almunajem Cold Stores Company (the "Company") is a limited liability company registered in Riyadh, Kingdom of Saudi Arabia (KSA) under commercial registration numbered 1010231822, dated 7 Rabie Thani 1428H (corresponding to 24 April 2007). The registered address of the Company is located at Riyadh, P O Box 1544, Riyadh 11451, KSA.

The Company is a subsidiary of Abdullah Al Ali Al Munajem Sons Company (the "Parent") which is a Closed Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010000565 dated 11 Dhu Al-Qidah 1376H (corresponding to 10 June 1957). The registered address of the Parent is located at Riyadh, P O Box 2395, Riyadh 11451, KSA.

On 11 October 2020 the partners decided to go for an IPO. Also, the partners decided in their meeting dated 2 November 2020 to convert the company from Limited Liability Company to a Closed Joint Stock company. In addition, the Company's has been changed from "Almunajem Cold Stores Company" to "Almunajem Foods Company" (A Saudi Closed Joint Stock Company). Legal formalities are completed subsequent to year-end on 17 February 2021 (note 31).

The Company is engaged in wholesale and retail trading in fruits, vegetables, cold and frozen meat, bottled, food stuff, through its following branches:

Commercial registration	*Branch location*
1131026002	Burieda
2050059043	Dammam
4030176226	Jeddah
5855030212	Khamis Mushait
4650046753	Madina
3550027505	Tabouk
3350031238	Hail
2250045420	Ahsa
4031067309	Makkah
4032032800	Taif
5900017953	Jizan
1010401313	Almunajem Transport
1010465454	Riyadh
4030291805	Almunajem Cold Stores Meat Factory-Jeddah

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared for inclusion in a prospectus in connection with an Initial Public Offering (IPO) in accordance with International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB") as endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

The Company has issued its statutory financial statements for the year ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards for Small and medium-sized enterprises (SMEs) ("IFRS for SMEs") and its interpretations as issued by the International Accounting Standards Board ("IASB") as endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS for SMEs as endorsed in KSA"). On 11 October 2020, the partners decided to go for IPO and the Capital Market Authority (CMA) has requested the Company to prepare financial statements for the year ended 31 December 2019 and 2018 with IFRS as endorsed in KSA. These financial statements for the year ended 31 December 2018 are the first, the Company has prepared in accordance with IFRS as endorsed in KSA. Refer to Note 6 for information on the first time adoption of the IFRS as endorsed in KSA by the Company.

Judgments and estimates

The preparation of financial statements in conformity with the IFRS as endorsed in KSA requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Refer to Note 4.

Basis of measurement

These financial statements have been prepared under the historical cost basis except for the employees' defined benefit liabilities, which has been actuarially valued as explained in the accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Presentation and functional currency

The financial statements are presented in Saudi Riyals (SR) which is also the functional currency of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied in the preparation of these financial statements:

Current versus non-current classification
The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when:
(a) it expects to realise the asset, or intends to sell or consume it, in the entity's normal operating cycle;
(b) it holds the asset primarily for the purpose of trading;
(c) it expects to realise the asset within twelve months after the reporting date; or
(d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets are classified as non-current.

A liability is current when:
(a) it expects to settle the liability in the entity's normal operating cycle;
(b) it holds the liability primarily for the purpose of trading;
(c) the liability is due to be settled within twelve months after the reporting date; or
(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.

The Company classifies all other liabilities as non-current.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2—Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3—Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Financial assets consist of bank balances and cash, trade receivables and other current financial assets and due from related parties. Financial liabilities consist of accounts payable and other liabilities and due to a partner, due to related parties, and short-term loans.

Revenue from contracts with customers
The Company is in the business of wholesale and retail trading in fruits, vegetables, cold and frozen meat, bottled, food stuff. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of goods
Revenue is income arising from the sale of goods in the ordinary course of the Company's activities, net of value added taxes, Revenue from sale of goods is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the goods. Revenue from sale of goods is recorded at the fair value of consideration received or receivable, net of returns and allowances and trade discounts.

IFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to the contracts with their customers. The Standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

(i) Variable consideration
If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of products provide customers with a right to return the goods within a specified period. The rights of return gives rise to variable consideration.

Rights of return
The Company uses the expected value method to estimate the variable consideration given the large number contracts that have similar characteristics. The Company then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included the transaction price and recognised as revenue. A refund liability is recognised for the goods that are expected be returned (i.e., the amount not included in the transaction price). A right of return asset (and corresponding adjustment to cost of revenues) is also recognised for the right to recover the goods from the customer.

Volume rebates
The Company applies the expected value method to estimate the variable consideration in the contract. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The expected value method is used for those with more than one volume threshold. The Company then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognised as revenue. A refund liability is recognised for the expected future rebates (i.e., the amount not included in the transaction price). All volume rebates are treated as discounts and the customers pay the net amount after discount.

The disclosures of significant estimates and assumptions relating to the estimation of variable consideration for returns and volume rebates are provided in Note 4.

(ii) Trade receivables
A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section *Financial instruments.*

(iii) Assets and liabilities arising from rights of return
Right of return assets
A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods and any potential decreases in value. The Company updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned products.

Refund liabilities
A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer. The Company's refund liabilities arise from customers' right of return. The liability is measured at the amount the Company ultimately expects it will have to return to the customer. The Company updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segmental reporting

An operating segment is a component: i) engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Company's other components; ii) the results of its operations are continuously analyzed by chief operating decision maker in order to make decisions related to resource allocation and performance assessment; and iii) for which financial information is discretely available. Segment results that are reported to the chief operating decision maker and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Property, plant and equipment

Property, plant and equipment, except for freehold land and capital work-in-progress, are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs include the cost of replacing part of the equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of profit or loss and other comprehensive income as incurred.

Freehold land and capital work-in-progress are stated at cost net of accumulated impairment, if any and represents all costs relating directly or indirectly to the acquisition or construction of assets where acquisition or construction is in progress and will be transferred to relevant category of property, plant and equipment once completed.

The cost less estimated residual value of remaining property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, effective from the date when it was available for use, as follows:

Category of property, plant and equipment	*Useful lives*
Buildings	33.3 years
Plant and equipment	6.67 to 10 years
Furniture and fixture	10 years
Computers	5 years
Motor vehicles	5 to 8 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income, in cost of revenues, selling and distribution expenses and general and administrative expenses, when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Leasing

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

Company as a lessee

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

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss and other comprehensive on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

Company as a lessor (continued)
Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Most of storage revenue contracts are short term and renewed automatically.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

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

The Company applies an annual rate of amortization of 5 years to its computers' software and is accounted for on a straight-line basis.

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

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

i) Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets (continued)

Initial recognition and measurement (continued)

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement
For the purpose of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)
Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The effective interest method is a method of calculating the amortised cost of a financial asset (or a group of financial assets) and of allocating the interest income or interest expense over the relevant period.

Bank balances and cash
Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with a maturity of 30 to 45 days or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

Trade receivable and other current financial assets
Trade receivable and other current financial assets are measured at amortized cost and comprise of trade receivables, advances to suppliers and contractors, employees' receivable and other current financial assets.

Due from related parties
Amounts due from related parties are measured at amortized cost and paid within 30 to 45 days.

Financial assets at fair value through OCI (debt instruments)
For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Company does not have debt instruments at fair value through OCI.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company does not have equity instruments at fair value through OCI.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes financial assets which the Company had not irrevocably elected to classify at fair value through OCI.

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

Impairment

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, net of directly attributable transaction costs.

The Company's financial liabilities include trade payables, other payables, loans and borrowings, due to a partner and due to related party. At 31 December 2018, all the Company's financial liabilities are classified at amortised cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent measurement
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

This category generally applies to interest-bearing loans and borrowings.

Trade payable, and other payable
Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the suppliers or not.

Due to related parties and due to a partner
Amounts due to related parties and due to a partner are measured at amortized cost and paid within 30 to 45 days.

Loans and borrowings
Loans and borrowings are measured at amortized cost and comprise of short-term loans.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income in general and administrative expenses.

iii) Offsetting of financial instruments
Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Inventories
Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average method. Cost includes expenditure incurred in acquiring the inventories, including other costs incurred in bringing them to their existing location and condition.

Net realisable value 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.

Goods in transit
Goods-in-transit are goods for resale or finished goods that have been shipped by a supplier but have not yet been received by the buyer. The Company recognizes goods-in-transit when the shipment reached the destination (which is generally Saudi Arabian ports) in accordance with the terms of arrangement with suppliers and all the related costs of shipment (cost, insurance and freight) is borne by the supplier. Goods-in-transit are recorded at landed cost.

Impairment of non-financial assets
The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating units (CGU's) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-zakat discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial (continued)
The Company bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years.

Impairment losses of continuing operations are recognised in the statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-zakat rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed to the statement of profit or loss and other comprehensive income

Contingencies
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable are recorded in the financial statement under accounts payable and accruals. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Zakat
Zakat is calculated and provided for by Abdullah Al Ali Al Munajem Sons Company (the "Parent") on a combined basis including its effectively wholly legally owned subsidiaries in accordance with Saudi Arabian fiscal regulations. The Company's share of this provision is charged to its statement of profit or loss and other comprehensive income in Zakat based on allocation by the Parent Company. For any assessment that may arise in the future related to the years from 2008 until 2020, will be borne the Parent Company.

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

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

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Dividends distribution
The Company establishes the obligations related to paying the cash dividends to the Company's partners when approving the distribution. According to the Saudi Arabian Regulations for Companies, dividends are approved upon approval by the partners. The corresponding amount is directly recognized in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' defined benefit obligations

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves, air fare, and child education allowances that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related services are recognised in respect of employees' services up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. The liabilities are presented in accounts payable, accruals and other current liabilities in the statement of financial position.

Post-employment obligation

Defined benefit plans:

The Company primarily has end of service benefits which qualify as defined benefit plans.

Defined benefit obligation ("DBO") is re-measured on a periodic basis by independent actuaries using the projected unit credit method. The present value of the DBO 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. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The net interest cost is calculated by applying the discount rate to the net balance of the DBO and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss and other comprehensive income.

DBO costs for periods are calculated on a year-to-date basis using the actuarially determined plan cost rate at the end of the prior year, adjusted for significant market fluctuations and for any significant one-off events, such as plan amendments, curtailments and settlements. In the absence of such significant market fluctuations and one-off events, the actuarial liabilities are rolled forward based on the assumptions as at the beginning of the year. If there are significant changes to the assumptions or arrangements during the period, consideration is given to re-measure such liabilities.

Current and past service costs related to post-employment benefits are recognised immediately in the statement of profit or loss and other comprehensive income while unwinding of the liability at discount rates used are recorded as a finance cost. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in OCI.

In the Kingdom of Saudi Arabia, for the liability for employees' end of service benefits, the actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labor and Workmen Law as well as the Company policy.

Statutory reserve

As required by Saudi Arabian Regulations for Companies, the Company must set aside 10% of its net profit in each year until it has built up a reserve equal to 30% of the capital. This having been achieved, the Company has resolved to discontinue such transfers. The reserve is not available for distribution.

Foreign currency transactions

Transactions in foreign currencies are recorded in Saudi Riyals at the rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date.

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material differences in the carrying amounts of assets and liabilities within the next financial period, are presented below. The Company used these assumptions and estimates on the basis available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

Judgements
In the process of applying the Company's accounting policies, management has not made any judgements apart from those involving estimation, which has the most significant effect on the amounts recognised in the financial statements.

Provision for expected credit losses of trade receivables and other current financial assets
The Company uses a provision matrix to calculate ECLs for trade receivables and other current financial assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Impairment of non-financial assets
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing off the asset. The value in use calculation is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the Cash Generating Unit ("CGU") being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Provisions
By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Provisions for litigation are based on an estimate of the costs, taking into account legal advice and other information presently available. Provisions for termination benefits and exit costs, if any, also involve management's judgment in estimating the expected cash outflows for severance payments and site closures or other exit costs. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

Economic useful lives of property and equipment and intangible assets
The useful lives of property, plant and equipment and intangible assets are estimated based on the economic lives of the property, plant and equipment and intangible assets and on the collective assessment of industry practice and experience with similar assets. The estimated useful lives of the property, plant and equipment and intangible assets are reviewed at each reporting date and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence. It is possible, however, that future financial performance could be materially affected by changes in the estimates brought about by changes in any of the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Revenue recognition - Estimating variable consideration for returns and volume rebates
The Company estimates variable considerations to be included in the transaction price for the sale of the products with rights of return and volume rebates.

The Company has developed a statistical model for forecasting sales returns. The model uses the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Company.

The Company's expected volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will be likely entitled to rebate will depend on the customer's historical rebates entitlement and accumulated purchases to date.

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

Revenue recognition - Estimating variable consideration for returns and volume rebates (continued)

The Company applied the statistical model for estimating expected volume rebates for contracts with more than one volume threshold. The model uses the historical purchasing patterns and rebates entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by the Company.

The Company updates its assessment of expected returns and volume rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and the Company's past experience regarding returns may not be representative of customers' actual returns in the future.

Defined benefit plans

The cost of the defined benefit plan and the present value of the obligation is determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexities involved in the valuation 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.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AAA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables for Saudi Arabia. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and increases are based on expected future inflation rates for the Saudi Arabia.

Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND OTHER AMENDMENTS

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it 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 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND OTHER AMENDMENTS (continued)

Transition to IFRS 16
The Company plans to adopt IFRS 16 retrospectively starting from 1 January 2019 using the modified simplified transition approach as permitted under the specific transition provisions in the standard. In adopting IFRS 16, the Company will apply the following practical expedients:

- not to reassess whether a contract contains a lease or not, allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application;
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- the election, by class of underlying asset, not to separate non-lease components from lease components, and instead
- account for each lease component and any associated non-lease components as a single lease component.

Upon adopting IFRS 16 in 2019, the company will recognize a right of use assets and lease liabilities amounting to SR 38,719,271, respectively.

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

Amendments to IFRS 3: Definition of a Business
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

<u>Other amendments and interpretations, but do not have an impact on the financial statements:</u>

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the financial statements of the Company.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND OTHER AMENDMENTS (continued)

Other amendments and interpretations, but do not have an impact on the financial statements:

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Interpretation will not have an impact on the financial statements of the Company.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liabilities (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liabilities (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liabilities (asset). The amendments had no impact on the financial statements of the Company's as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no impact on the financial statements as the Company does not have long-term interests in its associate and joint venture.

Annual Improvements 2015-2017 Cycle

- ***IFRS 3 Business Combinations***

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Company as there is no transaction where joint control is obtained.

- ***IFRS 11 Joint Arrangements***

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3.

The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Company as there is no transaction where a joint control is obtained.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND OTHER AMENDMENTS (continued)

Other amendments and interpretations, but do not have an impact on the financial statements (continued)

- ***IAS 12 Income Taxes***

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

These amendments are expected to have no impact on the financial statements of the Company.

- ***IAS 23 Borrowing Costs***

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Company's current practice is in line with these amendments, they are expected to have no impact on the financial statements of the Company.

6. IMPACT OF ADOPTION OF IFRS AS ENDORSED IN KSA

As fully described in note 2, the Company has issued its statutory financial statements for the year ended 31 December 2018 under IFRS for SMEs as endorsed in KSA and that on 11 October 2020, the partners decided to go for IPO and the Capital Market Authority (CMA) has requested the Company to prepare financial statements for the year ended 31 December 2018 under IFRS as endorsed in KSA. These financial statements, for the year ended 31 December 2018, are the first the Company has prepared in accordance with IFRS as endorsed in KSA. Accordingly, the Company has prepared financial statements that comply with IFRS as endorsed in KSA applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. In preparing the financial statements, the Company's opening statement of financial position was prepared as at 1 January 2017, the Company's date of transition to IFRS as endorsed in KSA. This note explains the principal adjustments made by the Company in restating its financial statements from IFRS for SMEs as endorsed in KSA to full IFRS as endorsed in KSA, including the statement of financial position as at 1 January 2017 and the financial statements as of, and for, the year ended 31 December 2017 and transition to IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers that became effective for annual period beginning on or after 1 January 2018.

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS as endorsed in KSA. The Company has not availed any exemption available at the first-time adoption.

6. IMPACT OF ADOPTION OF IFRS AS ENDORSED IN KSA

6.1 Impact of adoption of IFRS on the Statement of Financial Position as at 1 January 2017 (date of transition to IFRS)

	Note	*Amounts previously reported under IFRS for SMEs* *SR*	*Reclassification and Remeasurements* *SR*	*IFRS as at 1 January 2017* *SR*
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment		303,890,374	-	303,890,374
Intangible assets		7,488,974	-	7,488,974
TOTAL NON-CURRENT ASSETS		311,379,348	-	311,379,348
CURRENT ASSETS				
Inventories		412,442,552	-	412,442,552
Right of return assets	6.8	-	640,756	640,756
Trade receivables	6.7	186,898,448	1,108,279	188,006,727
Due from related parties		13,893,393	-	13,893,393
Prepayments and other assets		4,279,391	-	4,279,391
Other current financial assets		51,349,007	-	51,349,007
Bank balances and cash		18,780,348		18,780,348
TOTAL CURRENT ASSETS		687,643,139	1,749,035	689,392,174
TOTAL ASSETS		999,022,487	1,749,035	1,000,771,522
PARTNERS' EQUITY AND LIABILITIES				
PARTNERS' EQUITY				
Capital		150,000,000	-	150,000,000
Statutory reserve		75,000,000	-	75,000,000
Retained earnings	6.8	190,703,336	3,692,926	194,396,262
TOTAL PARTNERS' EQUITY		415,703,336	3,692,926	419,396,262
NON-CURRENT LIABILITY				
Employees' defined benefit liability		29,236,537	(2,792,130)	26,444,407
TOTAL NON-CURRENT LIABILITY		29,236,537	(2,792,130)	26,444,407
CURRENT LIABILITIES				
Trade payables, accruals and other payables		178,005,783	-	178,005,783
Due to related parties		772,367	-	772,367
Due to a partner		112,620,659	-	112,620,659
Refund liabilities		-	848,239	848,239
Short term loans		245,000,000	-	245,000,000
Zakat payable		17,683,805	-	17,683,805
TOTAL CURRENT LIABILITIES		554,082,614	848,239	554,930,853
TOTAL LIABILITIES		583,319,151	(1,943,891)	581,375,260
TOTAL LIABILITIES AND PARTNERS' EQUITY		999,022,487	1,749,035	1,000,771,522

6. IMPACT OF ADOPTION OF IFRS AS ENDORSED IN KSA (continued)

6.2 Impact of adoption of IFRS on the Statement of Financial Position as at 31 December 2017

	Note	*Amounts previously reported under IFRS for SMEs SR*	*Reclassification and Remeasurements SR*	*IFRS as at 31 December 2017 SR*
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment		301,189,803	-	301,189,803
Intangible assets		5,613,739	-	5,613,739
TOTAL NON-CURRENT ASSETS		306,803,542	-	306,803,542
CURRENT ASSETS				
Inventories		381,200,376	-	381,200,376
Right of return assets		-	637,838	637,838
Trade receivables		178,654,033	366,132	179,020,165
Due from related parties		7,222,815	-	7,222,815
Prepayments and other assets		3,278,005	-	3,278,005
Other current financial assets		116,244,526	-	116,244,526
Bank balances and cash		27,244,385		27,244,385
TOTAL CURRENT ASSETS		713,844,140	1,003,970	714,848,110
TOTAL ASSETS		1,020,647,682	1,003,970	1,021,651,652
PARTNERS' EQUITY AND LIABILITIES				
PARTNERS' EQUITY				
Capital		150,000,000	-	150,000,000
Statutory reserve		75,000,000	-	75,000,000
Actuarial valuation reserve		-	441,327	441,327
Retained earnings		304,087,151	3,562,996	307,650,147
TOTAL PARTNERS' EQUITY		529,087,151	4,004,323	533,091,474
NON-CURRENT LIABILITY				
Employees' defined benefit liability		30,646,812	(3,833,253)	26,813,559
TOTAL NON-CURRENT LIABILITY		30,646,812	(3,833,253)	26,813,559
CURRENT LIABILITIES				
Trade payables, accruals and other payables		181,749,482	-	181,749,482
Refund liabilities		-	832,900	832,900
Due to related parties		55,104	-	55,104
Due to a partner		111,524,995	-	111,524,995
Short term loans		161,000,000	-	161,000,000
Zakat payable		6,584,138	-	6,584,138
TOTAL CURRENT LIABILITIES		460,913,719	832,900	461,746,619
TOTAL LIABILITIES		491,560,531	(3,000,353)	488,560,178
TOTAL LIABILITIES AND PARTNERS' EQUITY		1,020,647,682	1,003,970	1,021,651,652

6. IMPACT OF ADOPTION OF IFRS AS ENDORSED IN KSA (continued)

6.3 Impact of adoption of IFRS on total partners' equity

	Note	*31 December 2017 SR*	*1 January 2017 SR*
Total partners' equity reported under IFRS FOR SMEs		529,087,151	415,703,336
Allowance for expected credit losses – IFRS 9	6.7	366,132	1,108,279
Restatement of employees' defined benefits liabilities – IAS 19	6.5 a	3,391,926	2,792,130
Actuarial results of employees' defined liabilities - IAS 19	6.5 a	441,327	-
Restatement of sales and cost of revenues - IFRS 15	6.8	(195,062)	(207,483)
Total partners' equity under IFRS		533,091,474	419,396,262

6.4 Effect of IFRS adoption on the Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2017

	Note	*Amounts previously reported under IFRS FOR SMEs SR*	*Effect of transition to IFRS SR*	*Amounts reported under IFRS SR*
Sales		2,482,224,903	15,339	2,482,240,242
Cost of revenues		(2,098,312,821)	(2,918)	(2,098,315,739)
GROSS PROFIT		383,912,082	12,421	383,924,503
Selling and distribution expenses		(202,824,717)	1,252,130	(201,572,587)
General and administrative expenses		(19,899,797)	(457,896)	(20,357,693)
TOTAL EXPENSES		(222,724,514)	794,234	(221,930,280)
OPERATING PROFIT		161,187,568	806,655	161,994,223
Other income		1,507,444	-	1,507,444
Finance costs		(4,473,716)	(936,585)	(5,410,301)
PROFIT BEFORE ZAKAT FOR THE YEAR		158,221,296	(129,930)	158,091,366
Zakat reversal		5,162,519	-	5,162,519
PROFIT FOR THE YEAR		163,383,815	(129,930.00)	163,253,885
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of employees' defined benefit liabilities		-	441,327	441,327
Total comprehensive income for the year		163,383,815	311,397	163,695,212

6. IMPACT OF ADOPTION OF IFRS AS ENDORSED IN KSA (continued)

6.5 Reconciliation of total comprehensive income for the year ended 31 December 2017

	Note	*Net profit for the year SR*
Net profit reported under IFRS FOR SMEs		163,383,815
Allowance for expected credit losses – IFRS 9	6.7	(742,147)
Restatement of sales and cost of revenues - IFRS 15	6.8	12,421
Restatement of employees' defined benefits liabilities – IAS 19	a	599,796
Net profit reported under IFRS		163,253,885
Other comprehensive income, net of zakat		441,327
Total comprehensive income for the year under IFRS		163,695,212

a- Restatement of employees' defined benefits liabilities

Under IFRS for SMEs standards, the Company recorded its employees' defined benefits liabilities based on the labor laws regulatory requirements. In order to determine the liability under IFRS as endorsed in KSA, the Company used the projected unit method in calculating the liability. Consequently, a change in the liability for the prior year has been recorded in the opening retained earnings and the statement of comprehensive income for the year ended 31 December 2017 and on the retained earnings and other comprehensive income for the year ended 31 December 2018

6.6 Reconciliation of statement of cash flows for the year ended 31 December 2017

No major Impact of the conversion from IFRS for SMEs to IFRS in the statement of cash flow statement:

6.7 IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; and impairment.

The Company has applied IFRS 9 retrospectively, with the initial application date of 31 December 2017 and adjusting the comparative information for the year beginning 1 January 2017.

6.7.1 Impact on the statement of financial position (increase/(decrease))

	31 December 2017 SR	*1 January 2017 SR*
ASSET		
Trade receivable (allowance for ECL)	(742,147)	1,108,279
Total asset	(742,147)	1,108,279
PARTNERS' EQUITY		
Retained earnings	(742,147)	1,108,279
Total partners' equity	(742,147)	1,108,279

6.7.2 Impact on the statement of profit or loss and comprehensive income (increase/(decrease))

	31 December 2017 SR
Selling and distribution expenses	(742,147)
Total impact on profit or loss and other comprehensive income	(742,147)

6. IMPACT OF ADOPTION OF IFRS AS ENDORSED IN KSA (continued)

6.7 IFRS 9 Financial Instruments (continued)

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs as endorsed in KSA. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the Company's financial statements are described below.

a- Classification and measurement of financial assets

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: The Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding. The assessment of the Company's business model was made as of the date of initial application, 1 January 2019, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2019. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets. The classification and measurement requirements of IFRS 9 did not have a significant impact on the Company.

b- Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon the adoption of IFRS 9, the Company reversed excess impairment on the Company's trade receivables of SR 1,108,279, which resulted in an increase in retained earnings of SR 1,108,279 as at 1 January 2017.

The statement of financial position as at 31 December 2017 was restated, resulting in reversal of allowance for ECL and increase in trade receivables and retained earnings of SR 366,132. The statement of profit or loss for the year ended 31 December 2017 was also restated for the change in impairment which were recognised as decrease in selling and distribution expenses of SR 742,147.

6.8 IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related Interpretations.

Upon the adoption of IFRS 15, the Company recognised right of return assets and Refund liabilities of SR 640,756 and SR 848,239 respectively, which resulted in a decrease in retained earnings of SR 207,483 as at 1 January 2017.

6. IMPACT OF ADOPTION OF IFRS AS ENDORSED IN KSA (continued)

6.8 IFRS 15 Revenue from Contracts with Customers (continued)

The statement of financial position as at 31 December 2017 was restated, resulting in reversal of right of return assets and refund liabilities pertaining to 2018 sales and increase in retained earnings of SR 207,483. In addition, statement of financial position was restated to recognise total right of return assets and refund liabilities of SR 637,838 and SR 832,900, respectively.

The statement of profit or loss and other comprehensive income for the year ended 31 December 2017 was also restated for the change in right of return assets and refund liabilities which were recognised as decrease in sales and cost of revenues of SR 15,339 and SR 2,918, respectively.

6.8.1 **Impact on statement of financial position (increase/(decrease))**

	31 December 2017 SR	*1 January 2017 SR*
ASSET		
Right of return assets	(2,918)	640,756
Total asset	(2,918)	640,756
PARTNERS' EQUITY		
Retained earnings	12,421	(207,483)
Total partners' equity	12,421	(207,483)
LIABILITY		
Refund liabilities	(15,339)	848,239
Total liability	(15,339)	848,239

6.8.2 **Impact on the statement of profit or loss and comprehensive income (increase/(decrease))**

	31 December 2017 SR
Sales	15,339
Cost of revenues	(2,918)
Total impact on profit or loss and comprehensive income	12,421

7. PROPERTY, PLANT AND EQUIPMENT

	Freehold land SR	*Buildings SR*	*Plant and equipment SR*	*Furniture and fixtures SR*	*Computer SR*	*Motor vehicles SR*	*Construction work in progress (b) SR*	***Total SR***
Cost:								
At 1 January 2017	83,954,109	152,381,641	113,210,552	19,668,646	12,537,131	106,615,830	8,045,751	496,413,660
Additions	-	284,947	2,256,944	877,342	653,702	545,271	18,630,418	23,248,624
Disposals	-	-	-	(59,630)	(11,702)	(3,891,197)	-	(3,962,529)
At 31 December 2017	83,954,109	152,666,588	115,467,496	20,486,358	13,179,131	103,269,904	26,676,169	515,699,755
Additions	-	588,184	3,969,748	1,160,253	712,210	17,175,063	10,162,734	33,768,192
Disposals	-	-	-	(24,900)	(207,321)	(2,602,757)	-	(2,834,978)
Fire disposals (a)	-	(6,629,773)	(7,771,409)	(824,935)	(336,920)	-	-	(15,563,037)
Reclassification	-	20,579,126	7,734,605	718,142	84,790	-	(29,116,663)	-
At 31 December 2018	**83,954,109**	**167,204,125**	**119,400,440**	**21,514,918**	**13,431,890**	**117,842,210**	**7,722,240**	**531,069,932**
Depreciation:								
At 1 January 2017	-	32,076,946	70,995,543	11,711,753	10,447,048	67,291,996	-	192,523,286
Charge for the year		4,624,580	7,566,811	1,798,836	985,197	10,142,080	-	25,117,504
Disposals	-	-	-	(54,663)	(9,072)	(3,067,103)	-	(3,130,838)
At 31 December 2017	-	36,701,526	78,562,354	13,455,926	11,423,173	74,366,973	-	214,509,952
Charge for the year	-	4,822,888	7,425,822	1,761,290	813,353	11,016,950	-	25,840,303
Disposals	-	-	-	(26,373)	(207,244)	(2,600,078)	-	(2,833,695)
Relating to fire disposals (a)	-	(2,933,674)	(7,613,702)	(577,180)	(321,175)	-	-	(11,445,731)
At 31 December 2018	-	38,590,740	78,374,474	14,613,663	11,708,107	82,783,845	-	226,070,829
Net book value:								
At 31 December 2018	**83,954,109**	**128,613,385**	**41,025,966**	**6,901,255**	**1,723,783**	**35,058,365**	**7,722,240**	**304,999,103**
At 31 December 2017	83,954,109	115,965,062	36,905,142	7,030,432	1,755,958	28,902,931	26,676,169	301,189,803
At 1 January 2017	83,954,109	120,304,695	42,215,009	7,956,893	2,090,083	39,323,834	8,045,751	303,890,374

7. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) During 2018, property, plant and equipment relating to Al-Qassim Cold Store with net book value of SR 4,117,306 were written off due to fire, this amount has been recorded as part of the total loss of SR 25,884,489 (note 23).

(b) Construction work in progress represents staff accommodation in Dammam and Meat Factory equipment , (31 December 2017: staff accommodation in Jeddah and new Dammam cold store and (1 January 2017: new Dammam cold store)

(c) Buildings with net book value amounting to SR 28.8 million (31 December 2017: SR 30 million, 1 January 2017: SR 31 million) are constructed on land leased from a related party under a short-term lease

(d) Building with net book value amounting to SR 9.6 million (31 December 2017: SR 9.9 million and 1 January 2017: SR 10.3 million) is constructed on land leased from Saudi Industrial Property Authority ("Modon") for a period of 20 years from 26 March 2018. The Company has the option of renewing the lease agreement on expiry of the initial lease term (note 30).

Depreciation charge for the year is allocated as follows:

	31 December 2018 ***SR***	*31 December 2017* *SR*
Cost of revenues	**2,306,661**	2,276,080
Selling and distribution expenses (note 21)	**22,870,941**	22,171,884
General and administrative expenses (note 22)	**662,701**	669,540
	25,840,303	25,117,504

8. INTANGIBLE ASSETS

	Computer software *SR*
Cost:	
At 1 January 2017	20,932,579
Additions	70,705
At 31 December 2017	21,003,284
Additions	2,113,979
Disposals	(5,493)
At 31 December 2018	**23,111,770**
Amortization:	
At 1 January 2017	13,443,605
Charge for the year	1,945,940
At 31 December 2017	15,389,545
Charge for the year	1,877,479
Disposals	(5,493)
At 31 December 2018	**17,261,531**
Net book value	
At 31 December 2018	**5,850,239**
At 31 December 2017	5,613,739
At 1 January 2017	7,488,974

8. INTANGIBLE ASSETS (continued)

Amortization charge for the year is allocated as follows:

	31 December 2018 ***SR***	*31 December 2017* *SR*
Selling and distribution expenses (note 21)	**36,793**	13,461
General and administrative expenses (note 22)	**1,840,686**	1,932,479
	1,877,479	1,945,940

9. BANK BALANCES AND CASH

	31 December 2018 ***SR***	*31 December 2017* *SR*	*1 January 2017* *SR*
Cash on hand	**3,583,842**	3,169,078	5,543,509
Cash at banks	**24,762,679**	24,075,307	13,236,839
	28,346,521	27,244,385	18,780,348

At 31 December 2018, the Company had available SR 260,000,000 (31 December 2017: SR 259,000,000, 1 January 2017: SR 175,000,000) of undrawn committed borrowing facilities.

10. TRADE RECEIVABLES

	31 December 2018 ***SR***	*31 December 2017* *SR*	*1 January 2017* *SR*
Trade receivables	**201,122,994**	185,433,887	191,678,302
Less: Allowance for expected credit losses	**(7,453,101)**	(6,413,722)	(3,671,575)
	193,669,893	179,020,165	188,006,727

Terms and conditions of the above financial assets:
Trade receivables are non-interest bearing and are generally on terms of 90 days. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured.

The movements in the allowance for expected credit losses during the year were as follows:

	31 December 2018 ***SR***	*31 December 2017* *SR*	*1 January 2017* *SR*
As at beginning of the year	**6,413,722**	3,671,575	4,928,216
Allowance (reversal) for expected credit losses (note 21)	**2,056,686**	2,742,147	(1,108,279)
Write-off	**(1,017,307)**	-	(148,362)
	7,453,101	6,413,722	3,671,575

The ageing of unimpaired trade accounts receivable is as follows:

	Total *SR*	*< 30 days* *SR*	*< 31 to 90 days* *SR*	*91 to 180 days* *SR*	*181 to 365 days* *SR*	*> 365 days* *SR*
31 December 2018	**201,122,994**	**141,711,568**	**47,727,575**	**2,929,975**	**1,598,854**	**7,155,022**
31 December 2017	185,433,887	145,553,739	31,993,758	2,038,016	1,168,207	4,680,167
1 January 2017	191,678,302	148,288,693	37,807,432	919,736	348,681	4,313,760

Refer to (note 25.5) for information about the credit risk exposure on the Company’s trade receivables using a provision matrix.

11. OTHER CURRENT FINANCIAL ASSETS

	31 December 2018	*31 December 2017*	*1 January 2017*
	SR	*SR*	*SR*
Advances to suppliers and contractors	**7,263,213**	113,066,500	47,655,387
Employees' receivables	**1,627,633**	1,365,037	1,593,340
Other financial assets	**6,523,963**	1,812,989	2,100,280
	15,414,809	116,244,526	51,349,007
Less: Allowance for expected credit losses	**(1,657,889)**	-	-
	13,756,920	116,244,526	51,349,007

The movements in the allowance for expected credit losses during the year were as follows:

	31 December 2018	*31 December 2017*	*1 January 2017*
	SR	*SR*	*SR*
At beginning of the year	**-**	-	-
Provision for expected credit losses (note 21)	**1,657,889**	-	-
Write-off	**-**	-	-
At the end of the year	**1,657,889**	-	-

12. PREPAYMENTS AND OTHER ASSETS

	31 December 2018	*31 December 2017*	*1 January 2017*
	SR	*SR*	*SR*
Prepayments	**3,939,245**	3,278,005	4,279,391
Other assets	**63,467**	-	-
	4,002,712	3,278,005	4,279,391

13. RELATED PARTIES DISCLOSURES

Related parties represent associated companies, partners, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Transactions with related parties - under common control of the Parent company - included in the statement of profit or loss and other comprehensive income are as follows:

	Sales	***Purchases***	***Expenses on behalf***
	SR	***SR***	***SR***
France Poultry	-	176,448,644	-
Shawaya House Company	21,969,408	-	1,160,600
Gulf Catering Company	13,692,300	870,029	1,804,393
Gulf Catering Food Factory (Kako)	5,890,146	151,626	(404,257)
Nutrition and Diet Center Company	7,106,256	222,068	1,718,196
Burieda Trading and Refrigeration Company	-	8,170,430	726,110
Az-Zad Saudi Company	1,110,623	196,198	300,816
Al-Kafa'a Real State Company	-	-	(679,771)
Abdullah Al Ali Al Munajem Sons Company	-	-	(245,385)
Sudair Frozen Factory	-	-	-
Thati Limited Company	243,230	-	118,410
Al Ameda Contracting Company	-	-	(18,379)

13. RELATED PARTIES DISCLOSURES (continued)

Balances with related parties included in the statement of financial position are as follows:

a) Amounts due from related parties

The breakdown of amounts due from related parties under common control of the Parent company is as follows:

	31 December 2018	*31 December 2017*	*1 January 2017*
	SR	*SR*	*SR*
France Poultry	**60,650,508**	-	-
Shawaya House Company	**4,204,968**	1,698,441	5,604,160
Nutrition and Diet Center Company	**3,337,381**	1,326,363	4,638,997
Gulf Catering Company	**1,109,872**	2,147,776	988,699
Gulf Catering Food Factory (Kako)	**1,046,812**	1,236,391	850,783
Az-Zad Saudi Company	**-**	-	1,049,184
Burieda Trading and Refrigeration Company	**-**	-	83,307
Al-Kafa'a Real State Company	**-**	-	268
Others	**583,841**	813,844	677,995
	70,933,382	7,222,815	13,893,393

b) Amounts due to related parties

The breakdown of amounts due to related parties under common control of the Parent company is as follows:

	31 December 2018	*31 December 2017*	*1 January 2017*
	SR	*SR*	*SR*
Sudair Frozen Factory	**53,202**	-	-
Az-Zad Saudi Company	**19,684**	-	765,887
Al Ameda Contracting Company	**-**	55,104	6,480
	72,886	55,104	772,367

c) Amount due to a partner

	31 December 2018	*31 December 2017*	*1 January 2017*
	SR	*SR*	*SR*
Abdullah Al Ali Al Munajem Sons Company	**111,770,382**	111,524,995	112,620,659

Terms and conditions of the above due to a partner:

These amounts are non-interest bearing and are generally on terms of 30 to 45 days.

The movement during the year is as follows:

	31 December 2018	*31 December 2017*	*1 January 2017*
	SR	*SR*	*SR*
At the beginning of the year	**111,524,995**	112,620,659	144,405,158
Expenses on behalf/(by) of Abdullah Al Ali Al Munajem Sons Company	**245,387**	(1,095,664)	(11,784,499)
Rent paid*	**845,270**	845,270	845,300
Payment	**(845,270)**	(845,270)	(20,845,300)
At the end of the year	**111,770,382**	111,524,995	112,620,659

*This represents payment towards a land lease contract with a partner.

13. RELATED PARTIES DISCLOSURES (continued)

d) Key management compensation

Key management personnel of the Company comprise of key members of the management having authority and responsibility for planning, directing and controlling the activities of the Company. The compensation to key management is shown below:

	31 December 2018 ***SR***	*31 December 2017* *SR*
Short-term employee benefits	**4,743,745**	5,144,353
Employees' defined benefit liabilities	**561,552**	517,512

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

Terms and conditions of transactions with related parties:

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Outstanding balances at year-end arise in the normal course of business. For the year ended 31 December 2018, 31 December 2017 and 1 January 2017, the amounts owed by related parties are not impaired.

14. REVENUES

	31 December 2018 ***SR***	*31 December 2017* *SR*
Non-retail - Goods transferred at a point in time	**1,533,533,434**	1,532,346,790
Retail - Goods transferred at a point in time	**959,943,333**	946,908,244
Services transferred over time	**3,868,106**	2,985,208
	2,497,344,873	2,482,240,242

Timing of revenue recognition	***31 December 2018*** ***SR***	*31 December 2017* *SR*
Goods transferred at a point in time	**2,493,476,767**	2,479,255,034
Services transferred over time	**3,868,106**	2,985,208
	2,497,344,873	2,482,240,242

14.1 RIGHT OF RETURN ASSETS AND REFUND LIABILITIES

	31 December 2018 ***SR***	*31 December 2017* *SR*	*1 January 2017* *SR*
Right of return assets	**594,551**	637,838	640,756
Refund liabilities	**723,292**	832,900	848,239

15. INVENTORIES

	31 December 2018 ***SR***	*31 December 2017* *SR*	*1 January 2017* *SR*
Goods for resale	**235,660,252**	266,107,895	255,299,533
Goods in transit	**99,060,979**	108,063,283	147,824,138
Other inventories	**10,733,678**	7,029,198	9,318,881
	345,454,909	381,200,376	412,442,552

During 2018, SR 2,085 million (2017: SR 2,098 million) was recognised as an expense for inventories carried at net realizable value. This is recognised in cost of revenues.

16. CAPITAL

Capital is divided into 150,000 shares (31 December 2017: 150,000 shares, 1 January 2017: 150,000 shares) of SR 1,000 each. Percentage of holding is as follows:

	31 December 2018	*31 December 2017*	*1 January 2017*
	SR	*SR*	*SR*
Abdullah Al Ali Al Munajem Sons Company	**99%**	99%	99%
Al-Kafa'a Real Estate Company	**1%**	1%	1%
	100%	100%	100%

17. EMPLOYEES' DEFINED BENEFITS LIABILITIES

	31 December 2018	*31 December 2017*
	SR	*SR*
At the beginning of the year	**26,813,559**	26,444,407
Current service cost (recognized in profit and loss)	**3,210,019**	3,454,819
Interest cost (recognized in profit and loss)	**997,361**	936,585
Payment	**(1,508,684)**	(3,580,925)
Actuarial gain (recognized in OCI)	**(1,900,128)**	(441,327)
At the end of the year	**27,612,127**	26,813,559

The most recent actuarial valuation was performed by an independent, qualified actuary "LUX Actuaries and Consultants" using the projected unit credit method. LUX Actuaries and Consultants are licensed from the "Institute of Actuaries", "Casualty Actuarial Society" and "Institute and Faculty of Actuaries".

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

	31 December 2018	*31 December 2017*
	SR	*SR*
Discount rate	**4.55%**	3.85%
Duration of the Liability (in years)	**9.5**	10.2
Rate of salary increases	**2.00%**	2.00%

All movements in the employees' defined benefit liabilities are recognized in profit or loss except for the actuarial gain, which is recognized in other comprehensive income.

Movements in actuarial gains reserve recognised in OCI are as follows:

	31 December 2018	*31 December 2017*
	SR	*SR*
At the beginning of the year	**441,327**	**-**
Actuarial gain on the obligation	**1,900,128**	441,327
At the end of the year	**2,341,455**	441,327

<u>Sensitivity analysis</u>

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

	31 December 2018	*31 December 2017*
	SR	*SR*
Increase in discount rate of 1%	**(2,038,204)**	(2,100,545)
Decrease in discount rate of 1%	**2,342,542**	2,429,707
Increase in rate of salary increase of 1%	**2,380,416**	2,451,309
Decrease in rate of salary increase of 1%	**(2,104,950)**	(2,155,615)

17. EMPLOYEES' DEFINED BENEFITS LIABILITIES (continued)

The following are the expected payments or contributions to the employees in future years:

	31 December 2018	*31 December 2017*
	SR	*SR*
Within the next 12 months (next annual reporting period)	**4,336,437**	3,805,724
Between 2 and 5 years	**13,957,031**	12,996,708
Beyond 5 years	**18,898,100**	17,260,789

18. TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

	31 December 2018	*31 December 2017*	*1 January 2017*
	SR	*SR*	*SR*
Trade payables	**162,204,029**	162,685,132	160,190,729
Accrued expenses	**19,982,582**	17,771,556	16,704,284
Advances from customers	**501,919**	487,535	364,795
Other payables	**920,729**	805,259	745,975
	183,609,259	181,749,482	178,005,783

Terms and conditions of the above financial liabilities:
Trade payables and other payables are non-interest bearing and have a term of three months.

19. SHORT-TERM LOANS

	Effective Interest rate %	***Maturity***	***31 December 2018***	*31 December 2017*	*1 January 2017*
			SR	*SR*	*SR*
SR 15 million	*SIBOR+ Fixed rate*	*Less than 1 month*	**15,000,000**		-
SR 62 million	*SIBOR+ Fixed rate*	*Less than 1 month*	**62,000,000**	-	-
SR 17 million	*SIBOR+ Fixed rate*	*Less than 1 month*	**17,000,000**	-	-
SR 17 million	*SIBOR+ Fixed rate*	*Less than 1 month*	**17,000,000**	-	-
SR 30 million	*SIBOR+ Fixed rate*	*Less than 1 month*	**30,000,000**	-	-
SR 19 million	*SIBOR+ Fixed rate*	*Less than 1 month*	**19,000,000**	-	-
SR 35 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	35,000,000	-
SR 7 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	7,000,000	-
SR 65 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	65,000,000	-
SR 34 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	34,000,000	-
SR 20 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	20,000,000	-
SR 35 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	-	35,000,000
SR 20 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	-	20,000,000
SR 20 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	-	20,000,000
SR 25 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	-	25,000,000
SR 20 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	-	20,000,000
SR 20 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	-	20,000,000
SR 20 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	-	20,000,000
SR 30 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	-	30,000,000
SR 35 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	-	35,000,000
SR 20 million	*SIBOR+ Fixed rate*	*Less than 1 month*	-	-	20,000,000
			160,000,000	161,000,000	245,000,000

The Company has obtained Murabaha and Tawaruq loans from local banks for financing the company’s working capital requirements. The loans are secured by corporate guarantee from the parent company and carry borrowing costs at commercial rates.

20. ZAKAT PAYABLE

Abdullah Al Ali Almunajem Sons Company (the "Parent Company") and the Company have filed their zakat declaration on a standalone basis until the year ended 31 December 2016. The Parent Company obtained an approval from the General Authority of Zakat and Tax (the GAZT) to submit its zakat returns on a combined basis, including the Company and therefore, from 2017 and onwards, the Parent Company started filing the combined zakat declarations for all wholly owned subsidiaries, including the Company. Combined zakat declaration for the years ended 31 December 2017 through 2018 has already been submitted with GAZT. The Parent Company has also obtained the zakat certificate until 31 December 2018. The calculation of the zakat liability is done by calculating Zakat due on the standalone basis for each entity of the group and then prorating the amount due to each company based on the combined Zakat calculation of the group.

In view of the approval of IPO process (note 1) and change on legal status of the Company subsequent to the year end (note 31), the Parent Company has pledged that any additional liability that may arise upon the finalization of zakat assessments that may arise in the future related to the years from 2008 until 2020 will be borne and settled by the Parent Company, therefore, no provision will be recorded in these financial statements in relation to any additional zakat exposure relating to prior years.

Zakat expense
The zakat charge for the year comprise of the following:

	31 December 2018 SR	*31 December 2017 SR*
Current year provision	**5,441,206**	6,584,138
Relating to prior periods (*)	**-**	(11,746,657)
Total provided during the year	**5,441,206**	(5,162,519)

(*) Abdullah Al Ali Al Munajem Sons Company (the "Parent Company") obtained an approval from the General Authority of Zakat and Tax (the GAZT) to submit its zakat returns on a combined basis, including the Company, for the years 2008 to 2016. Accordingly, the company will be charged with its share of zakat for the years from 2008 to 2016.

As a result, the excessive provisions in prior years have been reversed during the year.

Movement in the zakat provision:

	31 December 2018 SR	*31 December 2017 SR*
At the beginning of the year	**6,584,138**	17,683,805
Current year provision	**5,441,206**	6,584,138
Relating to prior periods	**-**	(11,746,657)
Payment during the year	**(6,584,138)**	(5,937,148)
At the end of the year	**5,441,206**	6,584,138

Status of assessments

Almunajem Cold Stores Company – Standalone zakat filing from 2008 to 2016
Zakat returns have been filed with the General Authority of Zakat and Tax (the GAZT) for all years from 2008 to 2016. However, final assessments have not yet been raised by the GAZT. For any assessment that may arise in the future related to the years from 2008 until 2020, will be borne the Parent Company.

Almunajem Cold Stores Company – Combined zakat filing from 2017 to 2018
Combined Zakat returns have been filed by the Parent Company, including the Company, with the General Authority of Zakat and Tax (the GAZT) for the years from 2017 to 2018. However, final assessments have not yet been raised by the GAZT.

21. SELLING AND DISTRIBUTION EXPENSES

	31 December 2018 ***SR***	*31 December 2017* *SR*
Employee costs	**93,406,713**	88,708,597
Marketing expenses	**23,110,569**	23,310,938
Depreciation (note 7)	**22,870,941**	22,171,884
Utilities	**14,647,188**	15,121,672
Sales commission	**12,491,234**	12,026,687
Loading and unloading	**10,609,394**	10,566,668
Car running expenses	**8,225,973**	7,579,595
Rental expenses	**4,702,051**	4,434,626
Insurance	**3,014,631**	2,740,720
Cold stores maintenance	**2,651,196**	2,570,369
Allowance for ECL on trade receivables (note 10)	**2,056,686**	2,742,147
Allowance for ECL on other current financial assets (note 11)	**1,657,889**	-
Business travel expenses	**1,520,271**	1,535,359
Port detention/electric charges	**1,072,141**	2,678,883
Stationaries and printings	**975,500**	1,017,596
Amortization (note 8)	**36,793**	13,461
Other expenses	**4,192,011**	4,353,385
	207,241,181	201,572,587

22. GENERAL AND ADMINISTRATIVE EXPENSES

	31 December 2018 ***SR***	*31 December 2017* *SR*
Employee costs	**12,670,377**	12,885,329
Amortization (note 8)	**1,840,686**	1,932,479
Bank charges	**1,202,059**	1,212,856
Depreciation (note 7)	**662,701**	669,540
Utilities	**655,383**	645,101
Professional fess	**408,264**	278,422
Repair and maintenance	**175,914**	565,076
Transportation and travelling	**180,652**	193,232
Other expenses	**2,456,795**	1,975,658
	20,252,831	20,357,693

23. OTHER (LOSS)/INCOME, NET

	31 December 2018 ***SR***	*31 December 2017* *SR*
Gain from a contingent asset (see note (a) below), net	**2,436,539**	-
Gain on disposal of property, plant and equipment	**604,118**	678,649
Other income	**231,598**	828,795
Fire loss (b)	**(25,884,489)**	-
	(22,612,234)	1,507,444

a) During 2018, the Company received an amount of SR 4.2 million which is related to a lawsuit raised against one of the suppliers, the court order was issued on 17 October 2018 in the favor of the Company. Amount paid to the legal counselor regarding this case is SR 1.8 million.

b) During 2018, the Company incurred a net loss of SR 25.9 million relating to a cold store fire located in Al Qassim This included loss of property, plant and equipment and inventories of SR 4,117,306 and SR 21,767,183 respectively.

24. FINANCE COSTS

	31 December 2018 SR	*31 December 2017* SR
Interest on bank borrowings	**5,849,806**	4,473,716
Interest on employees' defined benefit liabilities (note 17)	**997,361**	936,585
	6,847,167	5,410,301

25. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

25.1 FINANCIAL ASSETS

	31 December 2018 SR	*31 December 2017* SR
Financial assets at amortised cost:		
Trade receivables	**193,669,893**	179,020,165
Due from related parties	**70,933,382**	7,222,815
Other current financial assets	**13,756,920**	116,244,526
	278,360,195	302,487,506
Bank balances and cash	**28,346,521**	27,244,385
Total financial assets	**306,706,716**	329,731,891

25.2 FINANCIAL LIABILITIES

	Effective Interest rate	*Maturity*	*31 December 2018* SR	*31 December 2017* SR
Current interest-bearing liabilities				
Trade payables and other payables	*Interest free*	*Less than 1 year*	**163,626,677**	163,977,926
Short term loans	*Note 19*	*Less than 1 month*	**160,000,000**	161,000,000
Due to a partner (see note (a) below)	*Interest free*	*Less than 1 year*	**111,770,382**	111,524,995
Due to related parties	*Interest free*	*Less than 1 year*	**72,886**	55,104
			435,469,945	163,977,926

a) SR 107,586,101 has been transferred from this balance to increase in capital. The Company has increased its capital from SR 150 million to SR 600 million. Also, the Company has been converted to a Closed Joint Stock Company, and the approval from the Ministry of Commerce on 17 February 2021.

25.3 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2018 SR	*Cash flows* SR	*31 December 2018* SR
Short term loans	161,000,000	(1,000,000)	160,000,000
Total liabilities from financing activities	**161,000,000**	**(1,000,000)**	**160,000,000**

	1 January 2017 SR	*Cash flows* SR	*31 December 2017* SR
Short term loans	245,000,000	(84,000,000)	161,000,000
Total liabilities from financing activities	245,000,000	(84,000,000)	161,000,000

25. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

25.4 FAIR VALUES

Financial instruments comprise financial assets and financial liabilities.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Company's financial assets consist of bank balances and cash, trade receivables, other current financial assets, and due from related parties. Its financial liabilities consist of trade payables, short term loans, due to a partner and due to related parties.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The above financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

25.5 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities mainly comprise of accounts payable and other liabilities and due to a partner, due to related parties and short-term loans. The Company's financial assets include of bank balances and cash, account receivables and other assets and due from related parties which are integral to and are directly derived out of its regular business.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's management oversees the management of these risks. The Senior Management reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to two types of risk: interest rate risk, and foreign currency risk. Financial instruments affected by market risk include short term loans and payables denominated in foreign currency. There were no changes in these circumstances from the previous year.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's short-term loans have a short tenure and carry a floating rate of interest and is carried at amortized cost. Accordingly, management believes that the Company is not subject to any significant interest rate risk because it is a practice of the Company to settle all short-term debt obligations at the time of maturity which is generally one month.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the Company's profit before zakat is affected through the impact on floating rate borrowings, as follows:

	45 basis points increase SR	*45 basis points decrease SR*
2018	**(20,350)**	**20,350**
2017	(13,625)	13,625

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's purchases from outside suppliers mainly denominated in Euros. The exposure in 2018 is SR 37,324,362 (2017: SR 27,137,792)

25. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

25.5 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency sensitivity
The following tables demonstrate the sensitivity to a reasonably possible change in SAR and Euro exchange rates, with all other variables held constant.

The impact on the Company's profit before zakat is due to changes in the fair value of monetary assets and liabilities.

	5% increase	*5% decrease*
	SR	*SR*
2018	**1,633,226**	**(1,633,226)**
2017	1,356,890	(1,356,890)

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables, other current financial assets and related parties' balances) and from its financing activities, including balances with banks. ECL impact on other current financial assets is SR1,657,889 (2017: Nil).

Trade receivables
The average credit period granted is 90 days. No interest is charged on outstanding trade receivables.
An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for grouping of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Company does not hold collateral as security.

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix:

		Trade receivable – days past due				
	Not past due	***<90***	***90-180***	***181-365***	***>365***	***Total***
	SR	***SR***	***SR***	***SR***	***SR***	***SR***
31 December 2018						
Expected credit loss rate %	0.20%	0.68%	25.24%	52.85%	73.50%	
Gross carrying amount	141,711,568	47,727,575	2,929,975	1,598,854	7,155,022	**201,122,994**
Simplified ECL	(286,800)	(322,939)	(739,446)	(844,976)	(5,258,940)	**(7,453,101)**
	141,424,768	47,404,636	2,190,529	753,878	1,896,082	**193,669,893**

		Trade receivable – days past due				
	Not past due	*<90*	*90-180*	*181-365*	*>365*	*Total*
	SR	*SR*	*SR*	*SR*	*SR*	*SR*
31 December 2017						
Expected credit loss rate %	0.08%	0.32%	15.50%	37.31%	73.50%	
Gross carrying amount	145,553,739	31,993,758	2,038,016	1,168,207	4,680,167	185,433,887
Simplified ECL	(118,558)	(103,570)	(315,842)	(435,830)	(3,439,922)	(4,413,722)
100% ECL	-	(125,532)	(997,306)	(141,060)	(736,102)	(2,000,000)
	145,435,181	31,764,656	724,868	591,317	504,143	179,020,165

25. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

25.5 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

***Trade receivables* (continued)**

		Trade receivable – days past due				
	Not past due	*<90*	*90-180*	*181-365*	*>365*	*Total*
	SR	*SR*	*SR*	*SR*	*SR*	*SR*
1 January 2017						
Expected credit loss rate %	0.07%	0.34%	15.97%	34.86%	73.50%	
Gross carrying amount	148,288,693	37,807,432	919,736	348,681	4,313,760	191,678,302
Simplified ECL	(102,968)	(129,520)	(146,921)	(121,553)	(3,170,613)	(3,671,575)
	148,185,725	37,677,912	772,815	227,128	1,143,147	188,006,727

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

31 December 2018	***Within 3 months***	***3 months to 1 year***	***1 to 5 years***	***More than 5 years***	***Total***
	SR	*SR*	*SR*	*SR*	***SR***
Trade payables and other payables	163,626,677	-	-	-	163,626,677
Due to a partner	111,770,382	-	-	-	111,770,382
Due to related parties	72,886	-	-	-	72,886
Short term loans	160,000,000	-	-	-	160,000,000
	435,469,945	**-**	**-**	**-**	**435,469,945**

31 December 2017	***Within 3 months***	***3 months to 1 year***	***1 to 5 years***	***More than 5 years***	***Total***
	SR	***SR***	***SR***	***SR***	***SR***
Trade payables and other payables	163,977,926	-	-	-	163,977,926
Due to a partner	111,524,995	-	-	-	111,524,995
Due to related parties	55,104	-	-	-	55,104
Short term loans	161,000,000	-	-	-	161,000,000
	436,558,025	**-**	**-**	**-**	**436,558,025**

26. EARNING PER SHARE (EPS)

EPS is calculated by dividing the profit for the year attributable to equity holders of the Company by the number of shares outstanding at the year-end.

Basic and diluted earnings per share attributable to ordinary equity holders of the Parent Company for the year ended 31 December 2018 amounted to SR 996.50 per share (31 December 2017: SR 1,088.36 per share). The profit for the year ended 31 December 2018 amounted to SR 149,474,627 (31 December 2017: SR 163,253,885 and the number of ordinary shares for basic and diluted EPS as at 31 December 2018 are 150,000 (31 December 2017: 150,000).

There has been no item of dilution affecting the number of ordinary shares.

27. DIVIDENDS

The Senior Management in their meeting held on 23 Jumada al-thani1439H (corresponding to 11 March 2018) proposed dividends declaration of SR 206,087,151 – SR 1,373.91 per share (31 December 2017: SR 50,000,000 – SR 333.33 per share).

28. CAPITAL MANAGEMENT

For the purpose of the Company's management, capital includes issued capital and all other equity reserves attributable to the equity holders. The primary objective of the Company's capital management is to maximise the partner value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. The Company informally monitors capital using a gearing ratio, which is 'net debt' divided by total capital plus net debt. The Company includes within net debt, short term loans, amounts due to a partner, employees' defined benefit liabilities, zakat payable, less cash and bank balances.

	31 December 2018 ***SR***	*31 December 2017* *SR*
Short term loans	**160,000,000**	161,000,000
Due to a partner	**111,770,382**	111,524,995
Employees' defined benefit liabilities	**27,612,127**	26,813,559
Zakat payable	**5,441,206**	6,584,138
Less: Bank balances and cash	**(28,346,521)**	(27,244,385)
	276,477,194	278,678,307
Equity	**478,379,078**	533,091,474
Capital and net debt	**754,856,272**	811,769,781
Gearing ratio	**37%**	34%

29. SEGMENT INFORMATION

For management purposes, the Company is organised into business units based on its geographical regions, as follows:

31 December 2018	***Central region*** ***SR***	***Eastern region*** ***SR***	***Western region*** ***SR***	***Total*** ***SR***
Revenues	1,107,763,883	482,151,718	907,429,272	2,497,344,873
Cost of revenues	(919,592,846)	(400,424,103)	(765,458,678)	(2,085,475,627)
Asset depreciation and amortization	(9,355,427)	(4,608,570)	(13,753,785)	(27,717,782)
Segment profit	95,459,920	25,832,977	33,622,936	154,915,833
Total assets	441,271,020	185,968,370	340,368,840	967,608,230
Total liabilities	407,428,219	27,749,960	54,050,973	489,229,152

29. SEGMENT INFORMATION (continued)

31 December 2017	*Central region SR*	*Eastern region SR*	*Western region SR*	*Total SR*
Revenues	1,085,534,598	464,380,259	932,325,385	2,482,240,242
Cost of revenues	(911,027,979)	(392,500,698)	(794,787,062)	(2,098,315,739)
Asset depreciation and amortization	(10,436,830)	(3,243,346)	(13,383,268)	(27,063,444)
Segment profit	**93,279,205**	**2,297,483**	**62,514,678**	**158,091,366**
Total assets	511,074,241	172,767,096	337,810,315	1,021,651,652
Total liabilities	475,799,977	5,513,899	7,246,302	488,560,178

The top Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the financial statements. Also, the Company's financing (including finance costs, salaries and benefits of CEO, directors, finance and IT departments, legal and HR departments, administrative and support department, other expenses and other income) and Zakat are managed on a Company basis and are not allocated to operating segments.

30. CONTINGENT LIABILITIES AND COMMITMENTS

The Company has given letters of guarantee, limited to SR 1,978,842 (31 December 2017: SR 300,000, 1 January 2017: SR 310,000), in respect of contract performance, and letters of credit amounting to SR 69,467,934 (31 December 2017: SR 64,237,413, 1 January 2017: SR 83,990,040).

Operating lease commitments — Company as a lessee

The Company has entered into operating leases on certain motor vehicles, land and items of machinery, with lease terms between three and five years. The Company has the option, under some of its leases, to lease the assets for additional terms of three to five years.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows:

	31 December 2018 SR	*31 December 2017 SR*
Within one year	**913,148**	834,027
After one year but not more than five years	**3,576,582**	3,676,782
	4,489,730	4,510,809

This includes both short term and long-term leases.

31. SUBSEQUENT EVENTS DISCLOSURE

A- On 11 October 2020 the partners have decided to go for an IPO.

Also, the partners resolved in their meeting dated 2 November 2020 the following:

I. To convert the Company from Limited Liability Company to a Closed Joint Stock Company. Legal formalities are completed subsequent to year-end on 17 February 2021.
II. To increase the capital from an amount of SR 150,000,000 to an amount of SR 600,000.000 by transferring an amount of SR 107,586,101 from due to a partner, transferring an amount of SR 75,000,000 from statutory reserve account and transferring an amount of SR 267,413,899 from retained earnings to proposed increase in capital.
III. To change the name of the Company from AlMunajem Cold Store Company to AlMunajem Foods Company.

31. SUBSEQUENT EVENTS DISCLOSURE (continued)

B- COVID 19 IMPACT

A novel strain of coronavirus ("COVID-19") was first identified at the end of December 2019, subsequently in March 2020 was declared as a pandemic by the World Health Organization ("WHO"). COVID-19 continues to spread throughout in nearly all regions around the world including the Kingdom of Saudi Arabia and resulted in travel restrictions and curfew in the cities which resulted in a slowdown of economic activities and shutdowns of many sectors at global and local levels.

The extent to which coronavirus pandemic impacts the Company's business, operations, and financial results, is uncertain and depends on many factors and future developments, that the Company may not be able to estimate reliably during the current period. These factors include the virus transmission rate, the duration of the outbreak, precautionary actions that may be taken by governmental authorities to reduce the spread of the epidemic and the impact of those actions on economic activity, the impact to the businesses of the Company's customers and partners and other factors.

As far and as of the date of preparation of the financial statements for the year ended 31 December 2018, the Company's operations have not incurred significant impact from the COVID-19 outbreak. The Company's management will continue to evaluate the nature and extent of the impact of COVID-19 on the Company's business and financial results.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2018 were authorised for issuance by the partners on 24 Rajab 1442 H (corresponding to 8 March 2021).