WAFRAH FOR INDUSTRY AND DEVELOPMENT CO.
(A Saudi Joint Stock Company)

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

Crowe

Al Azem, Al Sudairy, Al Shaikh & Partners
CPA's & Consultants - Member Crowe Global

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(A Saudi Joint Stock Company)

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INDEPENDENT AUDITOR'S REPORT

TO: THE SHAREHOLDERS OF
WAFRAH FOR INDUSTRY AND DEVELOPMENT COMPANY
(A Saudi Joint Stock Company)

Report on the Audit of the Financial Statements

Opinion:

We have audited the financial statements of **WAFRAH FOR INDUSTRY AND DEVELOPMENT COMPANY - A Saudi Joint Stock Company - (the "Company")**, which comprise the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in shareholders' equity and 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 2019 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 issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion:

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the 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.

Material Uncertainty Related to Going Concern:

We draw attention to note 3 to the financial statements, which indicates that the company incurred a loss of approximately 24.5 and 26.5 million Saudi riyals for the year ended December 31, 2019 and 2018, respectively, so that the accumulated losses of the company as of December 31, 2019 amounted to SR 122,829,659, equivalent to 61.4% of The Company's capital. Which is an indication of the company's inability to continue. These conditions or events to indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters:

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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INDEPENDENT AUDITOR'S REPORT *(Continued)*
WAFRAH FOR INDUSTRY AND DEVELOPMENT COMPANY
(A Saudi Joint Stock Company)
Key Audit Matters (continued)

Implementation of IFRS 16 "Leases"	
Refer to notes (4-2) for the accounting policy and note (4-3) for related disclosures.	
Key audit matter	**How the matter was addressed in our audit**
The Company adopted IFRS 16 "Leases" with effect from 1 January 2019 and this new standard supersedes the requirements of IAS 17 "Leases". Management performed a detailed analysis of each lease contract to identify differences between the requirements of the tow standard, identify the changes required to be made to existing accounting policies and determine the transition adjustments and consequential changes to processes and controls required particularly in connection with identification of whether an arrangement meets the definition of a lease. IFRS 16 principally modifies the accounting treatment of operating leases at inception with the recognition of a right of use on leased asset and a corresponding liability for the discounted amount of lease payments over the term of lease contract. The Company has chosen to apply IFRS 16 "leases" using the modified simplified conversion method as permitted under the terms of the conversion specified in the standard. Consequently, the comparative financial statements have not been modified and, accordingly, the right to use the assets of SAR 3.2 million was recognized as of January 1, 2019. The lease obligations of SAR 3.1 million as of that date. Management also assessed the disclosure requirements of the new standard to be made in the financial statement. We considered this as a key audit matter because the calculations of amounts underlying the right of use assets and the corresponding lease liabilities involve new processes for collecting date, complex rules and the application of significant management judgement relating to the terms in the contracts.	We performed the following procedures relation to the implementation of IFRS 16: • Reviewed management's assessment of the impact of IFRS 16 terms of the classification and measurement of its right-of-use assets and lease liabilities and understood the approach taken towards implementation; • Assessed the accuracy of the lease data by testing on a sample basis, the lease data captured by management through the inspection of lease documents; • Tested lease schedules, on a sample basis, by recalculating the amounts underlying the right-of-use assets and lease liabilities, based on the terms of the lease contracts. We also tested the arithmetical accuracy of those individual lease schedules and how these accumulated into the overall adjustment totals applied in the consolidated financial statements as 1 January 2018; and • Consulted our accounting subject matter specialists to assess the appropriateness of the discount rates used in computing of lease liability obligation. We also reviewed the adequacy of the Company disclosures included in the accompanying financial statements in relation to the implementation of the new standard.

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INDEPENDENT AUDITOR'S REPORT ***(Continued)***
WAFRAH FOR INDUSTRY AND DEVELOPMENT COMPANY
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

<table>
<tr><td colspan="2">Revenue</td></tr>
<tr><td colspan="2">Refer to notes (4-16) for the accounting policy and note (23) for related disclosures.</td></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Sales mainly consist of sales of food products of pasta and potatoes.

Management performed a detailed analysis of each type of revenue contract to identify differences between the requirements of the two standards, identify the changes required to be made to existing accounting policies and determine the transition adjustments and consequential changes to processes and controls required particularly in connection with the separation of different performance obligations that there may be within a given contract.

Management also assessed the additional disclosures required to be made by the new standard in the financial statements.

We considered this a key audit matter as revenue is a key financial statement item and performance metric and the application of IFRS 15 can require judgment by management and the use of significant assumptions.</td><td>We performed the following procedures relation to revenue:

• Reviewed management's detailed analysis of its various revenue streams and how the new accounting standard impacts the Company;

• Gained an understanding of management's approach to the implementation of any changes to accounting policy;

• Obtained an understanding of the nature of revenue contracts used by the Company for each significant revenue stream, tested a sample of representative sales contracts to confirm our understanding and assess whether or not management's application of IFRS 15 requirements was in accordance with the accounting standard;

• Tested relevant processes and controls established by management to ensure appropriate recognition of revenue;

• Consulted with our accounting technical specialists on certain judgmental positions taken by management.

We also reviewed the adequacy of the Company's disclosures included in the accompanying financial statements.</td></tr>
</table>

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INDEPENDENT AUDITOR'S REPORT *(Continued)*
WAFRAH FOR INDUSTRY AND DEVELOPMENT COMPANY
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

Financial instruments	
Refer to notes (4-8, 4-18) for the accounting policy and notes (11) for related disclosures.	
Key audit matter	**How the matter was addressed in our audit**
As at 31 December 2019 carrying value of trade receivables amounted to SAR 26.7 million (2018: SAR 26.4 million) and the provision for expected credit losses of trading account receivables amounted to SAR 8.3 million (2018: SAR 7.8 millions). The Company assesses at each reporting date whether the financial assets carried at amortized cost are credit-impaired. The Company's management has applied a simplified expected credit loss ("ECL") model to determine the allowance for impairment of account receivables. The ECL model involves the use of various assumptions, macros-economic factors and study of historical trends relating to the Company's account receivables collections experience. We considered this a key audit matter due to the judgements and estimates involved in the application of the expected credit loss model.	We performed the following procedures in relation to Financial instruments: • Compared the ECL model developed by management to that required by IFRS 9 and reviewed the reasonableness of the methodology in comparison to accepted best practice. We also account the arithmetical accuracy of the model; • Tested key assumptions such as those used to calculate the likelihood of default and the subsequent loss on default, by comparing to historical data. We also considered the incorporation of forward looking factors (predominantly economic) to reflect the impact of future events on expected credit losses; • We compared the company's provision policy and the expected credit loss methodology with the requirements set out in IFRS 9. • Understand and evaluate the design and effectiveness of the internal control controls that the company applies to the trading accounts receivables cycle. We also reviewed the adequacy of the Company's disclosures included in the accompanying financial statements.

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INDEPENDENT AUDITOR'S REPORT ***(Continued)***
WAFRAH FOR INDUSTRY AND DEVELOPMENT COMPANY
(A Saudi Joint Stock Company)

Other Information
Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Regulations for Companies and Company's By-laws, 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

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

- Identify and assess the risks of material misstatement of the 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.

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INDEPENDENT AUDITOR'S REPORT ***(Continued)***
WAFRAH FOR INDUSTRY AND DEVELOPMENT COMPANY
(A Saudi Joint Stock Company)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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INDEPENDENT AUDITOR'S REPORT ***(Continued)***
WAFRAH FOR INDUSTRY AND DEVELOPMENT COMPANY
(A Saudi Joint Stock Company)

Report on Other Legal and Regulatory Requirements

Paragraph (135) of the Companies Law requires the auditor to include in his report any violations of the Regulations for Companies and Company's By-laws. During our audit of the financial statements, we have found that the Company has been in violations of the Companies Regulations and the Company's Articles of Association, and has no material impact on the financial statements, which are as follows:

- As described in Note 1, the Commercial Register of number and value of the shares has not been adjusted in accordance with the financial statements.

العظم والسديري وآل الشيخ وشركاؤهم
محاسبون ومراجعون قانونيون
License No 323/11/148
ترخيص رقم ١٤٨/١١/٣٢٣
Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountant R

Al Azem, Al Sudairy, Al-Shaikh & Partners
Certified Public Accountants

Salman B. AlSudairy
License No. 283

20 Rajab 1441H (March 15, 2020)
Riyadh, Saudi Arabia

WAFRAH FOR INDUSTRY AND DEVELOPMENT COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2019
(Saudi Riyals)

	Note	31 December 2019	31 December 2018
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment's, net	6	102,474,709	109,177,425
Right of used Assets, net	4-3	2,892,570	-
Intangible Assets, net	7	1,076,314	-
Investments at fair value through profit or loss	8	-	2,741,763
Real estate investments, net	9	10,119,456	11,127,708
Investments at fair value through other comprehensive income	10	589,466	672,771
TOTAL NON CURRENT ASSETS		**117,152,515**	**123,719,667**
CURRENT ASSETS			
Accounts receivable, net	11	18,459,848	18,567,849
Inventory, net	12	17,006,659	17,264,582
Prepayments and other debit balances, net	13	8,942,822	9,626,718
Due From Related Parties	14	760,638	329,237
Cash and cash equivalents	15	1,723,876	4,014,122
TOTAL CURRENT ASSETS		**46,893,843**	**49,802,508**
TOTAL ASSETS		**164,046,358**	**173,522,175**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Capital	1	200,000,000	200,000,000
Fair value reserve	10	(666,233)	(582,928)
Accumulated losses		(122,829,659)	(97,895,643)
TOTAL SHAREHOLDERS' EQUITY		**76,504,108**	**101,521,429**
LIABILITIES			
NON CURRENT LIABILITES			
Non-current portion of the loan guarantee provision - related party	8-E	5,850,477	-
Non-current portion of long term government loan	17	25,000,000	11,000,000
Non-current portion of lease obligations	4-3	2,530,244	-
Employees' defined benefits liabilities	18	7,257,245	6,427,240
TOTAL NON CURRENT LIABILITIES		**40,637,966**	**17,427,240**
CURRENT LIABILITIES			
Current portion of the loan guarantee provision - related party	8-E	2,212,913	-
Trading accounts payable		24,719,065	22,042,903
Current portion of lease obligations	3-4	351,023	-
Oversubscribed payable		3,258,720	3,258,720
Accrued expenses and other credit balances	19	4,853,776	4,008,796
Accrued dividend distribution	21	1,198,305	1,199,150
Current portion of long term government loan	17	3,000,000	17,000,000
Sales provisions	20	3,264,181	2,092,529
Zakat estimated provision	22	4,046,301	4,971,408
TOTAL CURRENT LIABILITIES		**46,904,284**	**54,573,506**
TOTAL LIABILITIES		**87,542,250**	**72,000,746**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**164,046,358**	**173,522,175**

Finance Manager **CEO** **Authorized Member**

The accompany notes are integrated part of these financial statements.

	Note	2019	2018
Sales, net	23	82,816,966	80,131,972
Cost of sales		(66,058,166)	(66,952,488)
Gross profit of operating income		**16,758,800**	**13,179,484**
General and administrative expenses	24	(9,951,177)	(9,227,860)
Selling and distributing expenses	25	(16,481,558)	(17,480,541)
Net loss from the main operation		**(9,673,935)**	**(13,528,917)**
Provision For Loan Guarantee in an associate	8-E	(8,063,390)	-
Fair value losses from investments at fair value through profit or loss	8-D	(4,354,480)	(6,499,675)
Real estate investments impairment provision	9	(1,008,252)	-
Provision for expected credit losses	11 , 13	(1,175,915)	(1,959,481)
Provision for slow moving items	12	(927,060)	(307,254)
Finance charges	17-1	(300,000)	(315,350)
Finance Cost	4-3	(190,020)	-
Other revenue	26	2,420,198	80,923
Net loss for the year before Zakat estimated		**(23,272,854)**	**(22,529,754)**
Zakat estimate	22	(1,288,762)	(3,971,408)
Net loss for the year		**(24,561,616)**	**(26,501,162)**
<u>OTHER COMPREHENSIVE INCOME</u>:			
Items that cannot be reclassified to profit or loss in subsequent periods:			
Net change in fair value investments	10	(83,305)	67,592
Actuarial losses defined benefits liabilities	18	(372,400)	(701,543)
Total other comprehensive loss for the year		**(455,705)**	**(633,951)**
Net comprehensive loss for the year		**(25,017,321)**	**(27,135,113)**
Loss per share:	27		
From net loss from the main operation		(0,48)	(0,68)
From net loss for the year		(1,23)	(1,33)

Finance Manager **CEO** **Authorized Member**

The accompany notes are integrated part of these financial statements.

WAFRAH FOR INDUSTRY AND DEVELOPMENT COMPANY
(A Saudi Joint Stock Company)
STATEMENTOF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(Saudi Riyals)

	Capital	*Statutory reserve*	*Fair value reserve*	*Accumulated losses*	*Total*
Balance at 1 January 2018	**200,000,000**	**7,202,424**	**(650,520)**	**(75,395,362)**	**131,156,542**
Impact of adoption of IFRS 9	-	-	-	(2,500,000)	**(2,500,000)**
Net loss for the year	-	-	-	(26,501,162)	**(26,501,162)**
Other comprehensive income	-	-	67,592	(701,543)	**(633,951)**
Amortization of accumulated losses	-	(7,202,424)	-	7,202,424	-
Balance at 31 December 2018	**200,000,000**	-	**(582,928)**	**(97,895,643)**	**101,521,429**
Balance at 1 January 2019	**200,000,000**	-	**(582,928)**	**(97,895,643)**	**101,521,429**
Net loss for the year	-	-	-	(24,561,616)	**(24,561,616)**
Other comprehensive income	-	-	(83,305)	(372,400)	**(455,705)**
Balance at 31 December 2019	**200,000,000**	-	**(666,233)**	**(122,829,659)**	**76,504,108**

Finance Manager **CEO** **Authorized Member**

The accompany notes are integrated part of these financial statements

WAFRAH FOR INDUSTRY AND DEVELOPMENT COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(Saudi Riyals)

	2019	*2018*
Cash Flows from operating Activities:		
Net loss for the year	(24,561,616)	(26,501,162)
Adjustments to:		
Depreciation	9,392,614	9,449,724
Amortizations	136,434	-
Zakat estimated provisionduring the year	1,288,762	949,982
Zakat during the year for previous years	-	3,021,426
Provision for employees' defined benefits liabilities	891,019	791,952
Provision for expected credit losses	1,175,915	1,959,481
Sales provisions	1,171,652	2,092,529
Loan guarantee provision - related party	8,063,390	-
Bad debts during the year	(67,425)	(1,648)
Provision for slow moving items	927,060	307,254
Investments impairment provision	4,354,480	6,499,675
Real estate investments impairment provision	1,008,252	-
Gains from owning investments	(1,612,717)	-
Profit on sale of property, plant and equipment	(70,711)	(18,648)
	2,097,109	**(1,449,435)**
Changes in:		
Accounts receivable	(359,973)	1,409,121
Inventory	(669,137)	8,613,019
Prepayments and other debit balances	(97,746)	(1,540,517)
Trading accounts payable	2,676,162	(2,919,257)
Accrued expenses and other credit balances	844,980	2,109,113
Cash from operations	**4,491,395**	**6,222,044**
Zakat paid during the year	(2,213,869)	(1,254,527)
Employees'defined benefits liabilities paid	(433,414)	(731,337)
Net cash provided by operating activities	**1,844,112**	**4,236,180**
Cash Flows from Investing Activities:		
Paid in purchase property, plant and equipment's	(2,403,591)	(2,194,013)
Paid in purchase Intangible assets	(1,212,748)	-
Proceeds from sale of property, plant and equipment's	138,004	18,650
Net cash used in investing activities	**(3,478,335)**	**(2,175,363)**
Cash Flows from Financing Activities:		
Due from related parties	(431,401)	(35,062)
lease obligations paid	(223,777)	-
Net change in long term government loan	-	(3,500,000)
Accrued dividend distribution	(845)	(1,375)
Net cash used in financing activities	**(656,023)**	**(3,536,437)**
Net change in cash and cash equivalents	**(2,290,246)**	**(1,475,620)**
Cash and cash equivalents at beginning of the year	4,014,122	5,489,742
Cash and cash equivalents at end of the year	**1,723,876**	**4,014,122**
Non-cash item:		
Net change fair value investments	(83,305)	67,592
Amortization of accumulated losses in statutory reserve	-	7,202,424

Finance Manager **CEO** **Authorized Member**

The accompany notes are integrated part of these financial statements

1. ACTIVITES

Wafrah For Industry And Development Company is a Saudi Joint Stock Company founded according to the commercial registration No. 1010076996 issued in Riyadh dated 24/10/1410H (corresponding to 18/05/1990). The paid up capital of the Company is 200 Millions Saudi Riyals comprising of 20 million shares at a par value of Saudi Riyals 10 per share.

The principal activities of the Company are manufacturing, canning, preserving, processing and development and marketing of food products for the local and foreign markets and taking advantage of seasonal surplus from agricultural crops, especially those which are perishable in nature, which are presented to the consumers after treatment and are subjected to varying degrees of agro-processing services.

The accompanying financial statements represents Company's financial statement and the those of its branch's which are as follows:

Branch Name	Commercial registration No.	Activity
Wafrah for Industry and Development CO. – Jeddah	4030108227	Marketing of the company's products
Wafrah for Industry and Development CO. – Dammam	2050028895	Marketing of the food products
Wafrah for Industry and Development CO. – Khamis Mushait	5855339110	Marketing of the company's products

The Commercial Register of number and value of the shares has not been adjusted in accordance with the above disclosure.

2. BASIS OF PREPARATION

(a) Applicable accounting standards :
These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA")

(b) basis of prepare financial statements:
The financial statements have been prepared on the historical cost basis except for certain financial assets that are measured at fair value through OCI and certain financial assets at fair value measured through OCI at fair value and financial assets and liabilities accounted at amortized cost.

(c) Functional and presentation currency:
The financial statements are presented in Saudi Riyal, which is the Company's functional currency.

3. ACCUMULATED LOSSES AND THE PRINCIPLE OF GOING CONCERN

The company incurred a loss of approximately 24.5 and 26.5 million Saudi riyals for the year ended December 31, 2019 and 2018, respectively, so that the accumulated losses of the company as of December 31, 2019 amounted to SR 122,829,659, equivalent to 61.4% of The Company's capital. Which is an indication of the company's inability to continue.
During the fourth quarter of 2019, the Board of Directors decided in its meeting held on 22/04/1441H corresponding to 19/12/2019 to reduce the company's capital in exchange for amortizing the accumulated losses of the company, which was then worth 98.9 million Saudi riyals, and accordingly these financial statements were prepared on the basis of Continuity.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 0219. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4-1 New standards, interpretations, and amendments adopted by the Company

The Company applies, for the first time, IFRS 16 Lease Contracts . As required in accordance with IAS 34 The nature and impact of these changes are explained below (4-2)

4-1-1 Annual improvements to IFRSs (2015-2017 sessions)

- IFRS (3) Business Grouping.
- IFRS 11 Standard Joint Arrangements.
- International Accounting Standard (23) borrowing costs.

4-1-2 Other modifications

The new standards and amendments to the standards below have not yet been applied and are not expected to have a material impact on the financial statements of the company:
- Characteristics of advance payments with negative compensation (amendments to IFRS 9).
- Modifications to plans, abbreviation, or settlement (amendments to IAS 19).

4-2 Changes in accounting policies

International Standard No. (16): Lease Contracts
IFRS (16) replaces existing guidelines for lease contracts, including International Accounting Standard No. (17) 'lease contracts', and the interpretation of IFRIC (4)' Determination of whether an arrangement involves a contract Rent ', and the interpretation of the Standards Interpretation Committee No. (15)' Operating Leases - Incentives', and the Interpretation of Standards Interpretation Committee No. (27) 'Evaluation of the substance of transactions that take the legal form of the lease contract.

IFRS 16 provides tenants with a single model for accounting for lease contracts. The lessee recognizes the asset related to the right to use, which represents its right to use the related asset in addition to the lease obligation, which represents its commitment to pay the lease payments. There are optional exemptions for short-term lease contracts and lease contracts for low-value assets. The accounting method used by the lessor remains similar to the current standard - that is, the lessors continue to classify leases into finance or operating leases.

A) The recognized amendment to the application of IFRS 16
In the current period, the company has implemented the IFRS 16 as of the mandatory application date of 1 January 2019 by applying the modified simplified transformation method as permitted under the transitional terms defined in the standard. As a result, the comparison figures for the 2018 fiscal year will not be modified.
The company has chosen to use the available operational exception when converting to IFRS 16. Therefore, it will not be re-evaluated whether or not the contract contains a lease contract, allowing the standard to be applied to previously recognized contracts as lease contracts only by applying IAS 17 and the interpretation of the Reporting Standards Committee No. 4 in the history of the primary application.
The company has also applied the practical exception to lease contracts which, at the date of commencement, contain a lease term of 12 months or less and do not contain a purchase option ('short-term lease contracts'), and lease contracts that contain a low-value asset ('low-value asset' ').

(Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4-2 Changes in accounting policies (Continued)

Impact of the application of IFRS 16 on the statement of financial position as at 31 December 2019:

	Balances without adoption of IFRS 16	Adjustments	As reported
ASSETS			
NON CURRENT ASSETS			
Property, plants and equipment, net	102,474,709	-	102,474,709
Right of used Assets, net	-	2,892,570	2,892,570
Intangible Assets, net	1,076,314	-	1,076,314
Investments determined by fair value through profit or loss	-	-	-
Real estate investments, net	10,119,456	-	10,119,456
Investments determined by fair value through other comprehensive income	589,466	-	589,466
TOTAL NON CURRENT ASSETS	**114,259,945**	**2,892,570**	**117,152,515**
CURRENT ASSETS			
Accounts receivable, net	18,459,848	-	18,459,848
Inventory, net	17,006,659	-	17,006,659
Prepayments and other debit balances, net	9,212,299	(269,477)	8,942,822
Due From Related Parties	760,638	-	760,638
Cash and cash equivalents	1,947,653	(223,777)	1,723,876
TOTAL CURRENT ASSETS	**47,387,097**	**(493,254)**	**46,893,843**
TOTAL ASSETS	**161,647,042**	**2,399,316**	**164,046,358**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Capital	200,000,000	-	200,000,000
Fair value reserve	(666,233)	-	(666,233)
Accumulated losses	(122,157,688)	(671,971)	(122,829,659)
TOTAL SHAREHOLDERS' EQUITY	**77,176,079**	**(671,971)**	**76,504,108**
LIABILITIES			
NON CURRENT LIABILITES			
Non-Current portion of loan guarantee provision - related party	5,580,477	-	5,580,477
Non-current portion of long term government loan	25,000,000	-	25,000,000
Non - current portion of lease obligations	-	2,530,244	2,530,244
Employees' defined benefits liabilities	7,257,245	-	7,257,245
TOTAL NON CURRENT LIABILITIES	**38,107,722**	**2,530,244**	**40,637,966**

(Saudi Riyals)

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4-2 Changes in accounting policies (Continued)

Impact of the application of IFRS 16 on the statement of financial position as at 31 December 2019: (Continued)

CURRENT LIABILITIES			
Current portion of loan guarantee provision - related party	2,212,913	-	2,212,913
Trading accounts payable	24,719,065	-	24,719,065
current portion of lease obligations	-	351,023	351,023
Oversubscribed payable	3,258,720	-	3,258,720
Accrued expenses and other credit balances	4,663,756	190,020	4,853,776
Accrued dividends distribution	1,198,305	-	1,198,305
Current portion of long term government loan	3,000,000	-	3,000,000
Sales provisions	3,264,181	-	3,264,181
Zakat estimated provision	4,046,301	-	4,046,301
TOTAL CURRENT LIABILITIES	**45,824,479**	**541,043**	**46,365,522**
TOTAL LIABILITIES	**84,470,96**	**3,071,287**	**87,542,250**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**161,647,042**	**2,399,316**	**164,046,358**

(Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4-2 Changes in accounting policies (Continued)

Impact of the application of IFRS 16 on the Statement of comprehensive income for the year ended 31 December 2019:

	Balances without adoption of IFRS 16	Adjustments	As reported
Sales, net	82,816,966	-	82,816,966
Cost of sales	(66,058,166)	-	(66,058,166)
Gross operating income	**16,758,800**	-	**16,758,800**
General and administrative expenses	(9,469,226)	(481,951)	(9,951,177)
Selling and distributing expenses	(16,481,558)	-	(16,481,558)
Net profit (loss) from the main operation	**(9,191,984)**	**(481,951)**	**(9,673,935)**
Provision For Loan Guarantee in an associate	(8,063,390)	-	(8,063,390)
Fair value losses from investments at fair value through profit or loss	(4,354,480)	-	(4,354,480)
Real estate investments impairment provision	(1,008,252)	-	(1,008,252)
Provision for expected credit losses	(1,175,915)	-	(1,175,915)
Provision for slow moving goods	(927,060)	-	(927,060)
Finance charges	(300,000)	-	(300,000)
Finance cost	-	(190,020)	(190,020)
Other revenue	2,420,198	-	2,420,198
Net loss for the year before Zakat estimated	**(22,600,883)**	**(671,971)**	**(23,272,854)**
Zakat estimate	(1,288,762)	-	(1,288,762)
Net loss for the year	**(23,889,645)**	**(671,971)**	**(24,561,616)**
OTHER COMPREHENSIVE INCOME:			
Items that cannot be reclassified to profit or loss in subsequent periods::			
Net change in fair value reserve	(83,305)	-	(83,305)
Actuarial losses defined benefits liabilities	(372,400)	-	(372,400)
Total other comprehensive loss for the year	**(455,705)**	-	**(455,705)**
Net comprehensive loss for the year	**(24,345,350)**	**(671,971)**	**(25,017,321)**

B) Accounting policies

The company has recognized new assets and liabilities for its operating lease contracts for various types of contracts, including warehouses, warehouse facilities, housing, office rentals, buildings, and others. Each lease payment is distributed between the liabilities and the cost of the financing. The financing cost is charged to the profit or loss over the lease period so that a periodic commission rate is achieved on the remaining balance of the obligation for each period. The right to use the asset is depreciated over the useful life of the asset and the lease term, whichever is shorter, on a straight-line basis.

(Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4-2 Changes in accounting policies (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis.

A- Right-of-use assets are measured at cost comprising the following:
- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

B- Lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees –
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in Condensed Statement of Profit or Loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items relating to office equipment.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

4-3 Clarification

The following table shows the balance of the right to use the assets in addition to the depreciation charged as follows:

	Lands and buildings	Total
Cost		
Beginning balance for the year	3,246,170	3,246,170
Additions During the year	-	-
Ending balance for the year	**3,246,170**	**3,246,170**
Deprecations		
Beginning balance for the year	-	-
Additions During the year	353,600	353,600
Ending balance for the year	**353,600**	**353,600**
Net Book Value	**2,892,570**	**2,892,570**

There are no additions to the right to use the assets during the year ended December 31, 2019.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4-3 Clarification (Continued)

The lease obligations as at the end of the year are as follows:

	lease obligations
Non-current lease obligations	3,105,044
Paid during 2019	(223,777)
Total rental liabilities	**2,881,267**
Non-current lease obligations	2,530,244
current lease obligations	351,023

The total commission expense of recognized rental obligations during the year ended December 31, 2019 is SAR 190,020.

4-4 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 it is:
- Expected to be realized or intended to sold or consumed in the normal operating cycle.
- Held primarily for the purpose of trading.
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in the normal operating cycle.
- It is held primarily for the purpose of trading.
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

Deferred tax assets and liabilities are classified as non-current assets and liabilities. All other liabilities are classified as non-current.

4-5 Property, plant and equipment's

- **Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within in the statement of profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4-5 Property, plant and equipment's (continued)

- **Subsequent costs**

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.
The costs of the day-to-day servicing of property and equipment are recognized in statement of profit or loss as incurred.

- **Depreciation**

Items of property and equipment are depreciated on a straight-line basis in statement of income over the estimated useful lives of each component. Leased assets are depreciated over the lease term or on the shorter useful lives of the assets

The estimated annual depreciation rates for property, plant and equipment during the current year are the same as for the previous year and details as follows:

Machinery and equipment's	2.5 -5 %
Buildings	3 – 15 %
Tools	5 – 15 %
Artesian wells	5 %
Furniture and fixture	2.5 – 15 %
Air conditions	15 %
Motor vehicles	25 %
Fitting and equipment's	10 %

4-6 Real estate investments

Real estate investment is a property acquired either to earn rental income or to increase in value or both, but not for the purpose of selling it through the normal activities of the Company. It is not used for production or supply of goods or services or for administrative purposes. Investment properties are stated at cost and their fair values are disclosed in the notes to the financial statements, which are estimated annually by an independent real estate expert based on the market prices of those properties within an active real estate market.

4-7 Intangible assets

Intangible assets other than goodwill are measured at cost less accumulated amortization and accumulated losses of impairment, if any.
The intangible assets are amortized on a straight-line basis over the economic life of 7 years.
Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the company, and the costs can be measured reliably.
The residual values of the intangible assets, their useful lives and indicators of impairment are reviewed at the end of each financial year and adjusted for a future effect, if necessary.

4-8 Accounts receivable

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. For impairment of financial assets refer to Note 4.8

4-9 Inventory

Iinventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost includes all direct manufacturing expenditure based on the normal level of activity and transportation and handling costs. Net realisable value comprises estimated selling price less further production costs to completion and appropriate selling and distribution costs. Allowance is made, where necessary for slow moving inventories. Cost of inventories is recognised as an expense.