

**UNITED CARTON INDUSTRIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
AND INDEPENDENT AUDITOR'S REPORT**

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Consolidated financial statements
For the year ended December 31, 2022

Index	Page
Independent auditor's report	2 – 3
Consolidated statement of financial position	4
Consolidated statement of profit or loss and other comprehensive income	5
Consolidated statement of changes in equity	6
Consolidated statement of cash flows	7
Notes to the consolidated financial statements	8 – 56



Independent auditor's report to the shareholders of United Carton Industries Company

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of United Carton Industries Company (the "Company") and its subsidiary (together the "Group") as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2022;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), endorsed in the Kingdom of Saudi Arabia (the "Code"), that is relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-Laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent auditor's report to the shareholders of United Carton Industries Company (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers



Ali A. Alotaibi
License Number 379

February 10, 2023



UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Consolidated statement of financial position
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31, 2022	As at December 31, 2021
Assets			
Non-current assets			
Property, plant and equipment	4	337,381,414	318,427,733
Goodwill	5	38,228,526	38,228,526
Intangible asset		345,387	1,984,199
Right-of-use assets	6	11,486,336	12,474,390
Advance for acquisition of a subsidiary	1	-	10,000,000
Deferred tax assets	16	5,966,419	4,712,690
Total non-current assets		393,408,082	385,827,538
Current assets			
Inventories	7	240,552,420	165,425,271
Trade receivables	8	210,705,865	194,786,774
Advances, prepayments and other receivables	9	26,733,739	16,148,872
Cash and cash equivalents	10	10,075,518	12,801,519
Total current assets		488,067,542	389,162,436
Total assets		881,475,624	774,989,974
Equity and liabilities			
Equity			
Share capital	11	200,000,000	200,000,000
Statutory reserve	12	60,000,000	60,000,000
Retained earnings		158,170,597	116,455,669
Total equity		418,170,597	376,455,669
Liabilities			
Non-current liabilities			
Lease liabilities	6	8,103,630	8,645,215
Employee benefit obligations	14	54,225,449	49,924,820
Total non-current liabilities		62,329,079	58,570,035
Current liabilities			
Trade payables		176,080,041	211,779,022
Accrued and other liabilities	15	72,035,631	49,557,604
Short term borrowings	13	139,718,094	70,000,000
Current portion of lease liabilities	6	6,653,398	7,164,124
Zakat and tax payable	16	6,488,784	1,463,520
Total current liabilities		400,975,948	339,964,270
Total liabilities		463,305,027	398,534,305
Total equity and liabilities		881,475,624	774,989,974

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

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Consolidated statement of profit or loss and other comprehensive income
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended	
		December 31, 2022	December 31, 2021
Revenue		1,414,673,208	1,049,571,818
Cost of sales	17	(1,227,283,899)	(941,602,973)
Gross profit		187,389,309	107,968,845
Selling and distribution expenses	18	(50,539,920)	(43,076,600)
General and administrative expenses	19	(68,655,800)	(59,602,123)
Allowance for impairment of trade receivables	8	(1,450,000)	(700,000)
Operating profit		66,743,589	4,590,122
Finance costs	20	(5,015,485)	(2,322,148)
Other income	21	3,506,130	4,302,388
Profit before zakat and income tax		65,234,234	6,570,362
Zakat expense	16	(2,259,111)	(1,588,506)
Income tax	16	(2,637,781)	2,065,848
Net profit for the year		60,337,342	7,047,704
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Re-measurements gain on employee benefit obligations	14	6,784,666	2,723,060
Deferred tax relating to re-measurement gain	16	(407,080)	(163,384)
		6,377,586	2,559,676
Total comprehensive income for the year		66,714,928	9,607,380

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

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Consolidated statement of changes in equity
(All amounts in Saudi Riyals unless otherwise stated)

	Saudi Shareholders			Non-Saudi Shareholders			Total		
	Share capital	Statutory Reserve	Retained earnings	Share capital	Statutory reserve	Retained earnings	Share capital	Statutory reserve	Retained earnings
At January 1, 2021	170,600,000	51,180,000	112,803,989	29,400,000	8,820,000	19,044,300	200,000,000	60,000,000	131,848,289
Profit before zakat and tax	-	-	5,309,825	-	-	1,260,537	-	-	6,570,362
Zakat and income tax	-	-	(1,588,506)	-	-	2,065,848	-	-	477,342
Other comprehensive income for the year	-	-	2,200,635	-	-	359,041	-	-	2,559,676
Total comprehensive income for the year	-	-	5,921,954	-	-	3,685,426	-	-	9,607,380
Transfer of non-Saudi shareholder % (Note 1)	(30,600,000)	(9,180,000)	(20,233,306)	30,600,000	9,180,000	20,233,306	-	-	-
Dividend (Note 25)	-	-	(17,500,000)	-	-	(7,500,000)	-	-	(25,000,000)
At December 31, 2021	140,000,000	42,000,000	80,992,637	60,000,000	18,000,000	35,463,032	200,000,000	60,000,000	116,455,669
Adjustment	-	-	(610,229)	-	-	610,229	-	-	-
Profit before zakat and tax	-	-	45,663,964	-	-	19,570,270	-	-	65,234,234
Zakat and income tax	-	-	(2,259,111)	-	-	(2,637,781)	-	-	(4,896,892)
Other comprehensive income for the year	-	-	4,749,266	-	-	1,628,320	-	-	6,377,586
Total comprehensive income for the year	-	-	48,154,119	-	-	18,560,808	-	-	66,714,928
Dividend (Note 25)	-	-	(17,500,000)	-	-	(7,500,000)	-	-	(25,000,000)
At December 31, 2022	140,000,000	42,000,000	111,036,527	60,000,000	18,000,000	47,134,070	200,000,000	60,000,000	158,170,597

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

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Consolidated statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

		Year ended December 31,	
	Note	2022	2021
Cash flows from operating activities			
Profit before zakat and income tax		65,234,234	6,570,362
<u>Adjustments for:</u>			
Depreciation on property, plant and equipment	4	52,137,039	50,590,809
Depreciation on right-of-use assets	6	6,753,214	6,872,674
Amortisation of intangible assets		2,030,501	2,317,617
Reversal of impairment loss of property, plant and equipment	4	(1,323,637)	(2,832,417)
Employee benefit obligations incurred	14	7,126,810	6,423,112
Loss on disposal of property, plant and equipment	4	11,007	5,739
Finance costs on short term borrowings		1,809,806	365,941
Gain on bargain purchase of a subsidiary		(2,400,179)	-
Finance costs on lease liabilities		880,526	898,165
Movement in allowance for inventories	7	-	(800,000)
Impairment of trade receivables	8	1,450,000	700,000
<u>Changes in working capital:</u>			
Trade receivables		384,857	(64,149,400)
Advances, prepayments and other receivables		(2,483,487)	(2,700,931)
Inventories		(59,289,299)	(33,856,798)
Trade payables		(52,136,673)	69,024,753
Accrued and other liabilities		638,099	(10,528,911)
Cash generated from operations		20,822,818	28,900,715
Zakat and income tax paid	16	(371,279)	(5,582,833)
Employee benefit obligations paid	14	(4,252,813)	(4,104,295)
Finance costs paid		(2,690,332)	(1,264,106)
Net cash inflow from operating activities		13,508,394	17,949,481
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(15,563,678)	(17,510,211)
Proceeds from disposal of property, plant and equipment		242,830	-
Purchase of intangible assets		(391,689)	-
Acquisition of a subsidiary		(39,061,567)	(10,000,000)
Net cash outflow from investing activities		(54,774,104)	(27,510,211)
Cash flows from financing activities			
Dividends paid	25	(25,000,000)	(25,000,000)
Short-term borrowings - net	13	69,718,094	40,600,000
Repayment of principal portion of lease liabilities		(6,817,471)	(3,991,151)
Net cash inflow from financing activities		37,900,623	11,608,849
Net increase in cash and cash equivalents		(3,365,087)	2,048,119
Cash and cash equivalents at the beginning of the year		12,801,519	10,753,400
Cash and cash equivalents of an acquired subsidiary		639,089	-
Cash and cash equivalents at the end of the year		10,075,518	12,801,519
<u>Supplemental information for non-cash information:</u>			
Deferred tax assets		1,253,730	2,013,679
Re-measurements of employee benefit obligations		(6,784,666)	(2,723,060)
Right-of-use assets and lease liabilities		5,765,160	1,392,585
Trade receivable written off		-	108,085
Advance tax reclassified to prepayments		-	993,181
Zakat and tax adjusted from prepayments		1,268,776	-
Transfer of employee benefit obligations to other receivables		9,028	-

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

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

1 General information

United Carton Industries Company (the "Parent Company") is a Closed Joint Stock Company registered in the Kingdom of Saudi Arabia ("KSA") under Commercial Registration number 4030065231 dated 18 Ramadan 1409H (corresponding 23 April 1989). The Company's registered office is located at Industrial Area- Phase No. 5, P.O. Box 31503, Jeddah 21418, Kingdom of Saudi Arabia.

On 16 September 2021, the shareholding of one of the Parent Company's shareholders namely Frimex Investment LLC was changed to 100% non-Saudi/GCC shareholding (2020: 51% GCC shareholding and 49% non-Saudi/GCC shareholding). As a result, 70% of the company's shareholding is owned by Saudi/GCC shareholders (2020: 85.3%) and the remaining 30% shareholding is owned by non-Saudi/GCC shareholders (2020: 14.7%).

The Parent Company is engaged in the manufacturing and sale of corrugated carton containers and plates.

These consolidated financial statements include the accounts of the following branches of the Parent Company, which are registered under the aforementioned registration number and engaged in similar activities as the Parent Company.

The comparative figures in the financial statements represent the stand alone financial statements of the Parent Company for the year ended December 31, 2021.

Sr. No.	Location of Branch	Commercial Registration Number
1	Jeddah	4030-198716
2	Jeddah	4030-201068
3	Jeddah	4030-125875
4	Riyadh	1010-268185
5	Dammam	2050-075036
6	Al-Kharj	1011-023950
7	Riyadh	1010-053015
8	Riyadh	1010-585737

Theses consolidated financial statements were authorized for issue by the Parent Company's Board of Directors on February 5, 2023.

1.1 Basis of consolidation

These consolidated financial statements include the financial statements of the Parent Company and the following subsidiary in which the Company exercises control (collectively referred to as "the Group")

The detail of the Parent Company's subsidiary is as follows:

Subsidiary name	Country of incorporation	Principle business activity	Ownership interest percentage	
			2022	2021
Integrated Packaging Industries Company (Previously known as "Al Kifah Paper Products Company)	Saudi Arabia	Manufacturing of duplex (folding) cartons, paper pulp from fibre, paper product for household purposes including plates, cups and allied products	100%	-

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

1 General information (continued)

1.1 Basis of consolidation (continued)

During the year ended December 31, 2021 the Parent Company entered into a share purchase agreement (SPA) to acquire 100% shares of Al-Kifah Paper Products Company which is incorporated in the Kingdom of Saudi Arabia for a total consideration of Saudi Riyals 49.1 million of which an advance payment amounting to Saudi Riyals 10 million as was paid during 2021. Accordingly, effective March 30, 2022, the Group acquired the entire ownership interest in Al-Kifah Paper Products Company and renamed it as Integrated Packaging Industries Company. The purchase price allocation pertaining to the transaction is still in progress.

The following assets and liabilities were acquired by the Group on the date of the acquisition.

	As at March 29, 2022
Property, plant and equipment	54,457,242
Inventories	15,837,850
Trade receivables	17,753,948
Prepayments and other receivables	9,379,184
Cash and cash equivalents	639,086
Employee benefit obligations	(8,220,326)
Trade payables	(16,437,692)
Accruals and other payables	(21,839,928)
Provision for zakat	(107,618)
Book value of net assets acquired	<u>51,461,746</u>

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other shareholders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

1 General information (continued)

1.1 Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or statement of comprehensive income; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(a) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in consolidated statement of profit or loss and other comprehensive income. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed-off the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2 Summary of significant accounting policies

2.1 Basis of preparation

The significant accounting policies applied by the Group in the preparation of these consolidated financial statements are set out below:

(a) Statement of compliance

These financial statements for the year ended December 31, 2022 are the first set of statutory consolidated financial statements prepared and presented by the Group since its acquisition of its subsidiary. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia (KSA) and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

The Group has elected to presents its expenses by function. The Group reports cash flows from operating activities using the indirect method.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Historical cost convention

These consolidated financial statements have been prepared on a historical cost basis.

The significant accounting policies applied by the Group in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied for all periods presented, unless otherwise stated.

2.2 Application of new and amended standards and interpretations

(a) New and amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2022:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16.
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37.
- Annual Improvements to IFRS Standards 2018-2020, and
- Reference to the Conceptual Framework – Amendments to IFRS 3.

The Group also elected to early adopt the following amendments:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to IAS 12 13, and
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet effective

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not effective for December 31, 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

The significant accounting policies applied by the Group in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied for all periods presented, unless otherwise stated.

2.3 Foreign currencies

(i) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the respective entity operates (the “functional currency”). The consolidated financial statements are presented in Saudi Riyals, which is also the Group’s functional currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.3 Foreign currencies (continued)

Differences arising on settlement or translation of monetary items are recognised in the Group's consolidated statement of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 Current vs non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current / non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised 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.

The Group classifies all other assets as non-current. A liability is current when:

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

The Group classifies all other liabilities as non-current.

2.5 Property, plant and equipment

Initial recognition

Property, plant and equipment is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the property, plant and equipment will flow to the Group, and the cost of the asset can be measured reliably. Property, plant and equipment is recognised and measured initially at cost. Cost includes the fair value of the consideration given to acquire the asset (net of discounts and rebates) and any directly attributable cost, such as site preparation cost, delivery, installation costs, relevant professional fees and the estimated cost of dismantling and removing the asset and restoring the site (to the extent that such cost is recognised as a provision).

When parts of property, plant and equipment are significant in cost in comparison to the total cost of the item and such parts have a useful life different from other parts, the Group recognises such parts as individual assets and depreciate them accordingly.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in the consolidated statement of profit and loss.

Subsequent measurement

The Group adopts the cost model to measure the entire class of property, plant and equipment. After recognition as an asset, an item of property, plant and equipment is carried as its cost less any accumulated depreciation and impairment losses, if any.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

Subsequent expenditure

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

Depreciation

Useful lives are determined by management based on the expected usage of the asset, expected physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of the assets and other similar factors. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Depreciation is calculated on a straight-line basis over the below useful lives and is recognised in the consolidated statement of profit or loss and other comprehensive income:

Category	Useful life - years
• Buildings	20 years
• Motor vehicles	4 years
• Machinery and equipment	4 – 10 years
• Furniture and office equipment	4 – 10 years

Capital work-in-progress (CWIP)

Assets in the course of construction or development are capitalised in the CWIP within property, plant and equipment. The asset under construction or development is transferred to the appropriate category in property, plant and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of CWIP comprises its purchase price, construction / development cost and any other costs directly attributable to the construction or acquisition of an item intended by management. CWIP is measured at cost less any recognised impairment. CWIP is not depreciated. Depreciation only commences when the assets are capable of operating in the manner intended by management, at which point they are transferred to the appropriate asset category.

Borrowing costs

Borrowing costs directly attributable to the acquisition and or construction of property, plant and equipment assets that necessarily take a substantial period of time to prepare for their intended use and a proportionate share of general borrowings are capitalised to the cost of those property, plant and equipment. All other borrowing costs are expensed as incurred and recognised in finance costs.

2.6 Intangible assets

(i) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.6 Intangible assets (continued)

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(ii) *Software and Customer relationships*

Intangible assets acquired separately are measured at cost upon initial recognition. Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets acquired in a business combination are recognized at their fair value, unless the fair value cannot be measured reliably without undue cost or effort. Following initial recognition, intangible assets having a finite useful life are carried at cost less any accumulated amortization and any accumulated impairment losses, if any.

Intangible assets are amortized using straight-line method over their estimated useful lives as follows:

Category	Useful life - years
• Customer relationship	10 years
• Computer software	4-10 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and carrying amount of the asset and are recognized in the statement of profit or loss and other comprehensive income when the asset is derecognized. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

2.7 Leases

The Group leases various lands, warehouses and vehicles. Rental contracts are typically made for fixed periods but may have extension options.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

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.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, 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.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Group, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group uses that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.7 Leases (continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

2.8 Impairment of non-financial assets other than inventories

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Group of assets. Where 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-tax 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 to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators, as applicable.

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

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Inventories

Finished goods

Inventories are carried at the lower of cost or net realizable value. Cost is determined on the weighted average method. The cost of finished products includes the cost of raw materials, direct labor and manufacturing overheads and all other costs necessary to bring the goods to their existing condition and location.

Raw materials and spares

Raw materials and spares are valued at the lower of cost or net realizable value. Cost is determined on the weighted average cost basis.

Work in progress

Work in progress is measured using estimated manufacturing cost including appropriate overheads based on normal level of activity.

Goods-in-transit

Goods-in-transit are valued at cost comprising invoice value plus other charges incurred thereon.

Net realizable value is the estimate selling price in ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

2 Significant accounting policies (continued)

2.10 Trade and other receivables

Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognized at fair value. They are subsequently measured at amortised cost using the effective interest method, less loss allowance. The carrying amount of trade receivable is tested for impairment in accordance with the policy described in note 2.13.1.

2.11 Prepayments and other receivables

Prepayments and other receivables are initially recognized at the transaction price and subsequently measured at amortized cost using the effective interest method, less allowance for impairment. These are generally short term in nature and their fair value approximates their carrying value.

2.12 Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash in hand, bank balances and deposits with original maturities of three-months or less, if any.

2.13 Financial instruments

2.13.1 Financial assets

Classification of financial assets

The Group classifies its financial assets under the following categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVTOCI); and
- Amortised cost

These classifications are on the basis of business model of the Group for managing the financial assets, and contractual cash flow characteristics.

The Group measures financial asset at amortised cost when it is within the business model to hold assets in order to collect contractual cash flows, and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For assets measured at fair value, gains and losses will be recorded either in profit or loss or other comprehensive income.

(i) Recognition and derecognition

The Group initially recognizes financial assets on the date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of profit or loss and other comprehensive income.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

2 Significant accounting policies (continued)

2.13 Financial instruments (continued)

2.13.1 Financial assets (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the assets and the cash flow characteristics of the assets.

- **Amortized cost:** Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Interest income, if any, from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in the Statement of profit or loss and other comprehensive income and presented in "other income" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss and other comprehensive income.
- **Financial assets at fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to Statement of profit or loss and other comprehensive income and recognized in "other income". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income and impairment expenses are presented as a separate line item in the statement of profit or loss and other comprehensive income.
- **Financial assets at fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognized in statement of profit or loss and other comprehensive income and presented net within other "other income" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the statement of profit or loss and other comprehensive income following the de-recognition of the investment. Dividends from such investments continue to be recognized in the statement of profit or loss and other comprehensive income as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other income in the statement of profit or loss and other comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

Impairment of financial assets

The Group applies the expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets that are debt instrument and are measured at amortized cost. The Group follows the 'simplified approach' for recognition of impairment loss allowance on trade receivables, if they do not contain a significant financing component. The application of the simplified approach does not require the Group to track changes in credit risk. Rather, it recognizes impairment loss allowance based on the lifetime ECL at each reporting date, right from its initial recognition. Lifetime ECL is the expected credit loss resulting from all possible default events over the expected life of a financial instrument.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

2 Significant accounting policies (continued)

2.13 Financial instruments (continued)

2.13.1 Financial assets (continued)

The Group uses a provision matrix in the calculation of the ECL on financial assets to estimate the lifetime expected credit losses, applying certain provision rates to respective contractual past due aging buckets. The provision matrix was developed considering the probability of default and loss given default, which are derived from historical data of the Group and are adjusted to reflect the expected future outcome. ECL impairment loss allowance (or reversal) recognized during the period is recognized as income/expense in the statement of profit or loss and other comprehensive income.

2.13.2 Financial liabilities

All financial liabilities are recognized at the time when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the statement of profit or loss and other comprehensive income.

2.13.3 Offsetting financial instruments

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

2.13.4 Fair valuation of financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level is as follows:

Level 1: The fair value of the financial instruments in active market is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Specific valuation techniques used to value financial instruments include:

- Use of quoted market prices or dealer quotes for similar instruments
- Fair value of the remaining financial instruments is determined using discounted cash flow analysis.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

2 Significant accounting policies (continued)

2.13 Financial instruments (continued)

2.13.5 Transfers of financial instruments

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

2.14 Share capital

Ordinary shares are classified as equity.

2.15 Employee benefit obligations

Short-term employee benefits

Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post-employment obligation

The Group operates a single post-employment benefit scheme of defined benefit plan driven by the Labor and Workman Laws of the Kingdom of Saudi Arabia which is based on most recent salary and number of service years.

The post-employment benefits plan is not funded. Accordingly, valuations of the obligations under the plan are carried out by qualified actuary engaged by the management and are based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed to each year of service and the interest on this obligation in respect of employee service in previous years.

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

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income and transferred to retained earnings in the statement of changes in equity in the period in which they occur.

Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

2.16 Trade payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at transaction price and subsequently measured at amortised cost using the effective interest method.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

2 Significant accounting policies (continued)

2.17 Provisions

Provisions are recognised when the Group 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. Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-zakat and tax rate that reflects current market assessments of the time value of money and the risks specific to liability. The increase in the provision due to the passage of time is recognised as interest expense. The expense relating to a provision is presented in the consolidated statement of profit or loss and other comprehensive income, net of reimbursements.

2.18 Zakat and income tax

The Group is subject to zakat in accordance with the regulations of the Zakat, Tax and Customs Authority (ZATCA). Provision for zakat is accrued and charged to the consolidated statement of profit or loss and other comprehensive income. Additional amounts payable, if any, at the finalisation of final assessments are accounted for when such amounts are determined.

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the Kingdom of Saudi Arabia.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss.

Deferred income tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in the statement of profit or loss.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

2 Significant accounting policies (continued)

2.18 Zakat and income tax (continued)

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Withholding tax

The Group withhold taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with ZATCA regulations, which is not recognized as an expense being the obligation of the counter party on whose behalf the amounts are withheld.

Value Added Tax ("VAT")

Assets and expenses are recognised net of amount of VAT, except when VAT incurred on a purchase of assets or services is not recoverable from the ZATCA, in which case, VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable. The net amount of VAT recoverable from, or payable to, ZATCA is included as part of other receivables or other payables.

2.19 Borrowings

Borrowings are recognised initially at the transaction price (that is, the present value of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortised cost. Interest expense is recognised on the basis of the effective interest method and is included in finance costs. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

All borrowing costs are recognised in the statement of profit or loss in the period in which they are incurred

2.20 Revenue recognition

The Group is in the business of manufacturing and sale of corrugated carton and plates, duplex (folding) cartons as well as pulp products. Revenue comprises of sales to customers and is measured based on the considerations specified in contracts with customers and excludes rebates and amounts, if any, collected on behalf of third parties. Certain customers are eligible for volume rebates once their purchases during the period exceeds a threshold specified in the respective contracts. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume rebates and discounts.

Sale of goods

Revenue from sale of goods is recognized 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 that do not have an alternate use to the Group and the Group has a legally enforceable right to payment for such goods, their revenue is recognized over a period of time. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effect of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer, if any. The Group disaggregates revenue from contracts with customers into categories that depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Majority of the sale of goods is within Kingdom of Saudi Arabia.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

2 Significant accounting policies (continued)

2.20 Revenue recognition (continued)

Right of return

For contracts that permit the customer to return an item, under IFRS 15, revenue is recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Therefore, the amount of revenue recognized is adjusted for expected returns, which are estimated based on the historical data.

Variable consideration

If consideration in a contract includes a variable amount, the Group 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 recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of goods provide customers with volume rebates giving rise to variable consideration.

Volume rebates

The Group provides volume rebates to certain customers once their purchase during the period exceeds a threshold specified in the contract. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method as the selected method better predicts the amount of variable consideration driven by customers' rebate entitlement based on volume thresholds and purchase made by them during the period. The Group then applies the requirements on constraining estimates of variable considerations and recognizes a refund liability for the expected rebates.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to above accounting policy on variable consideration.

2.21 Cost of sales

Production costs and direct manufacturing expenses are classified as cost of sales. This includes raw material, direct labor and other attributable overhead costs.

2.22 General and administrative expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of sales. Allocations between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

2.23 Selling and distribution expenses

Selling and distribution expenses principally consist of costs incurred in the distribution and selling of the Group's products and services. All other expenses are classified as general and administrative expenses.

2.24 Dividends

Dividends are recorded in the financial statements in the period in which they are approved by shareholders of the Group.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

3 Key sources of estimation uncertainty and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical estimates and judgments that affect the reported amounts of revenue, costs, assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amount of revenue and expenses during the reporting period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve-month period are discussed below:

(a) Useful lives of property, plant and equipment

The management determines the estimated useful lives of property, plant and equipment for computing depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates. At year-end, if the useful life increased / decreased by 10% against the current useful life with all other variables held constant, profit for the year would have been higher or lower by Saudi Riyals 5.3 million.

(b) Allowance for impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. At year-end, if the loss rates increased / decreased by 10% with all other variables held constant, the profit for the year would have been lower or higher by Saudi Riyals 0.9 million.

(c) Allowance for inventory obsolescence

The Group determines its allowance for inventory obsolescence based upon historical experience, current condition, and current and future expectations with respect to sales or use. The Group provides an amount as an allowance for obsolete, damage and slow-moving inventories on a regular basis and reassesses the closing balance at each reporting date. The estimate of the Group's allowance for inventory obsolescence could change from period to period, which could be due to differing remaining useful life, change in technology, possible change in usage, sales expectation and other qualitative factors of the portfolio of inventory from year to year.

(d) Employee benefit obligations

Employee benefits represent the employee termination benefits. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. The cost of post-employment defined benefits is the present value of the related obligation, as determined using projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates or high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term approximating the terms of the related obligation. Where there is no deep market in such bonds, then market rates on government bonds are used or the rates from international bond markets are used which are adjusted for the country risk premium. Since there is no deep corporate bonds or government bonds in Saudi Arabia, the discount rate was selected using the yield available on dollar denominated KSA Sovereign Bonds, traded in international market of the duration equal to the duration of the liability and adjusted for the country risk premium. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, withdrawal before normal retirement age, mortality rates, etc. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is sensitive to changes in these assumptions.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

3 Key sources of estimation uncertainty and judgements (continued)

(d) Employee benefit obligations (continued)

All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. With respect to determining the appropriate discount rate, yield and duration of high-quality bonds obligation, as designated 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. Please see Note 14 for assumptions used.

(e) Goodwill - Annual impairment testing of goodwill

The Group's management tests whether goodwill has suffered any impairment at least on an annual basis. This requires an estimation of recoverable amounts of the cash-generating units to which the goodwill is allocated. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model, gross margin and the growth rate used for extrapolation purposes. The key assumptions applied in the determination of the value-in-use are disclosed and further explained in Note 5 to the consolidated financial statements.

(f) Right-of-use assets and lease liabilities

The Group has applied judgment to determine the lease term for some lease contracts in which it is a lessee that includes renewable options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For lease of land and building, the following factors are normally most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not to terminate)
- If any lands are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- The Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Extension and termination options are included in a number of leases of the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

3 Key sources of estimation uncertainty and judgements (continued)

(g) Estimation expected for returns and variable consideration for volume rebates

The Group estimates expected returns and variable considerations to be included in the transaction price for the sale of goods with volume rebates.

For contracts that permit the customer to return an item, under IFRS 15 revenue is recognised to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data.

Determining whether a customer will be likely entitled to rebate will depend on the customer's rebates entitlement and accumulated purchases. The Group applied most likely amount method for estimating expected volume rebates for contracts. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate estimated by the Group.

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

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals unless otherwise stated)

4 Property, plant and equipment

	Land	Buildings	Motor vehicles	Machinery and equipment	Furniture and fixtures	Capital work-in- progress	Total
At January 1, 2021							
Cost	5,427,488	248,144,325	4,215,633	944,721,469	84,006,376	5,448,348	1,291,963,639
Accumulated depreciation	-	(120,823,340)	(3,735,825)	(740,576,499)	(78,146,322)	-	(943,281,986)
Net book amount	<u>5,427,488</u>	<u>127,320,985</u>	<u>479,808</u>	<u>204,144,970</u>	<u>5,860,054</u>	<u>5,448,348</u>	<u>348,681,653</u>
Year ended December 31, 2021							
Opening net book amount	5,427,488	127,320,985	479,808	204,144,970	5,860,054	5,448,348	348,681,653
Additions	-	1,928,694	628,531	4,824,445	3,471,638	6,656,903	17,510,211
Transfers to/(from) capital work-in-progress	-	322,928	-	9,919,169	-	(10,242,097)	-
Disposals:							
- Cost	-	(1,418,733)	(192,046)	(4,149,902)	(4,895,339)	-	(10,656,020)
- Accumulated depreciation	-	1,418,733	192,046	4,145,457	4,894,045	-	10,650,281
	-	-	-	(4,445)	(1,294)	-	(5,739)
Depreciation charge	-	(9,705,102)	(469,279)	(34,337,664)	(6,078,764)	-	(50,590,809)
Reversal of impairment	-	1,027,483	-	1,434,736	370,198	-	2,832,417
Closing net book amount	<u>5,427,488</u>	<u>120,894,988</u>	<u>639,060</u>	<u>185,981,211</u>	<u>3,621,832</u>	<u>1,863,154</u>	<u>318,427,733</u>
At December 31, 2021							
Cost	5,427,488	248,977,214	4,652,118	955,315,181	82,582,675	1,863,154	1,298,817,830
Accumulated depreciation and impairment	-	(128,082,226)	(4,013,058)	(769,333,970)	(78,960,843)	-	(980,390,097)
	<u>5,427,488</u>	<u>120,894,988</u>	<u>639,060</u>	<u>185,981,211</u>	<u>3,621,832</u>	<u>1,863,154</u>	<u>318,427,733</u>

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals unless otherwise stated)

4 Property, plant and equipment (continued)

	Land	Buildings	Motor vehicles	Machinery and equipment	Furniture and fixtures	Capital work-in-progress	Total
Year ended December 31, 2022							
Opening net book amount	5,427,488	120,894,988	639,060	185,981,211	3,621,832	1,863,154	318,427,733
Addition relating to acquisition of a subsidiary	-	21,780,137	21,249	31,212,519	1,443,337	-	54,457,242
Additions	-	786,727	453,700	4,099,772	1,559,187	8,664,292	15,563,678
Transfers to/(from) capital work-in-progress	-	1,314,140	437,773	3,957,242	4,128,338	(9,837,493)	-
Disposals:							
- Cost	-	-	(403,420)	(6,302,860)	(572,570)	-	(7,278,850)
- Accumulated depreciation	-	-	403,420	6,106,812	514,781	-	7,025,013
	-	-	-	(196,048)	(57,789)	-	(253,837)
Depreciation charge	-	(10,209,643)	(273,279)	(34,466,890)	(7,187,227)	-	(52,137,039)
Reversal of impairment	-	510,130	-	732,766	80,741	-	1,323,637
Closing net book amount	5,427,488	135,076,479	1,278,503	191,320,572	3,588,419	689,953	337,381,414
At December 31, 2022							
Cost	5,427,488	282,867,672	8,816,636	1,073,964,731	98,446,152	689,953	1,470,212,632
Accumulated depreciation and impairment	-	(147,791,193)	(7,538,133)	(882,644,159)	(94,857,733)	-	(1,132,831,218)
	5,427,488	135,076,479	1,278,503	191,320,572	3,588,419	689,953	337,381,414

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

4 Property, plant and equipment (continued)

During 2012, the Group received a notification from Ministry of Rural Affairs to vacate one of its plants, located in Riyadh, as the land on which the plant was operating, is located in a zone which should not be used for industrial purposes. Initially, the Group obtained permission from Ministry of Rural Affairs to continue the operations at the same place till March 2014.

Subsequently, based on request from the Group, the government authorities initiated actions to reassess the environmental impact of the factories operating in that zone. In this regard, the Group undertook an environmental impact assessment and was issued an environmental certificate, certifying its compliance with the environmental standards. Following environmental certificate, the industrial license was issued to the Group, based on which, the Group is in process of seeking Municipality license which is currently under process.

During 2022, management has reassessed the impairment allowance relating to property, plant and equipment of Saudi Riyals 7.43 million (2021: Saudi Riyals 8.75 million) and has reversed an amount of Saudi Riyals 1.32 million (2021: Saudi Riyals 2.83 million) which is included as other income in note 21 to these consolidated financial statements.

Capital work in progress mainly represents cost of production facility improvements and upgrades.

Depreciation charge for the year has been allocated as follows:

	Note	2022	2021
Cost of sales	17	48,835,036	47,429,428
Selling and distribution expenses	18	285,992	264,542
General and administrative expenses	19	3,016,011	2,896,839
		52,137,039	50,590,809

5 Goodwill

This represents purchase consideration in excess of the fair value of the net assets of National Packing Products Company Limited ("NPPCL") which was acquired during 2015. NPPCL was merged as a branch into the Parent Company effective January 1, 2019.

For impairment testing, goodwill is allocated to the NPPCL Cash Generating Unit (CGU). The Group performs its annual impairment testing as at December 31 every year. The recoverable amount of the NPPCL CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect changes in demand for products and services. The pre-tax discount rate applied to the cash flow projections is 12.65% (2021: 9.65%). The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 2% (2021: 2%). This growth rate is lower than the industry average growth rate by 1.5%.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The calculation of value in use is most sensitive to the following assumptions:

- Gross margin;
- Discount rate; and
- Growth rates used to extrapolate cash flows beyond the forecast period.

A reasonable possible change in the above assumptions will not cause the carrying amount of the goodwill to exceed the recoverable amount.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

6 Leases

The Group has lease contracts for various lands, warehouses, staff accommodations and motor vehicles used in its operations. Leases of land generally have lease terms between 10 and 20 years, warehouses and staff accommodations have lease terms from 3 to 5 years while motor vehicles generally have lease terms of up to 4 years.

The Group also has certain leases of accommodation buildings with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

	Leasehold lands	Warehouses and accommodations	Motor vehicles	Total
At January 1	6,608,337	9,457,061	1,889,081	17,954,479
Additions	-	487,665	904,920	1,392,585
Depreciation	(487,671)	(5,228,658)	(1,156,345)	(6,872,674)
As at December 31, 2021	6,120,666	4,716,068	1,637,656	12,474,390
Additions	-	1,233,311	4,531,849	5,765,160
Depreciation expense	(505,055)	(4,062,330)	(2,185,829)	(6,753,214)
As at December 31, 2022	5,615,611	1,887,049	3,983,676	11,486,336

Depreciation charge related to right-of-use assets for the year is as follows:

	Note	2022	2021
Cost of sales	17	5,735,280	5,914,468
Selling and distribution expenses	18	64,882	58,794
General and administrative expenses	19	953,052	899,412
		6,753,214	6,872,674

Lease liabilities:

The related lease liabilities included in the statement of financial position of nets assets are as follows:

	December 31, 2022	December 31, 2021
Current	6,653,398	7,164,124
Non-current	8,103,630	8,645,215
	14,757,028	15,809,339
	2022	2021
At January 1	15,809,339	18,407,905
Additions	5,765,160	1,392,585
Accretion of finance cost	880,526	898,165
Lease payments	(7,697,997)	(4,889,316)
At December 31	14,757,028	15,809,339

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

6 Leases (continued)

The following are the amounts recognised in the statement of profit or loss:

	2022	2021
Depreciation expense of right-of-use assets	6,753,214	6,872,674
Finance cost on lease liabilities	880,526	898,165
Expense relating to short-term leases (included in cost of sales)	69,758	181,942
Expense relating to short-term leases (included in general and administrative expenses)	230,271	181,475
Total amount recognised in statement of profit or loss and other comprehensive income	7,933,769	8,134,256

The Group had total cash outflows for leases of Saudi Riyals 7.7 million (2021: Saudi Riyals 4.9 million). The Group also had non-cash additions to right-of-use assets and lease liabilities of Saudi Riyals 5.8 million (2021: Saudi Riyals 1.39 million).

7 Inventories

	December 31, 2022	December 31, 2021
Raw materials	193,063,447	139,749,375
Spare parts	52,175,795	48,941,251
Work in progress	3,056,175	1,000,139
Finished goods	4,373,787	1,764,699
Goods in transit	31,674,280	17,760,871
	284,343,484	209,216,335
Less: allowance for slow-moving inventories	(43,791,064)	(43,791,064)
	240,552,420	165,425,271

Movement in the allowance for slow-moving inventories is as follows:

	2022	2021
Opening balance	43,791,064	44,591,064
Reversal	-	(800,000)
Closing balance	43,791,064	43,791,064

8 Trade receivables

	Note	December 31, 2022	December 31, 2021
Trade receivable – third parties		209,903,112	194,885,236
Less: allowance for impairment of trade receivables		(9,450,889)	(8,000,889)
		200,452,223	186,884,347
Due from related parties	22	10,253,642	7,902,427
		210,705,865	194,786,774

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

8 Trade receivables (continued)

Movement in allowance for impairment of trade receivables is as follows:

	2022	2021
Opening balance	8,000,889	7,408,974
Provision	1,450,000	700,000
Write-offs	-	(108,085)
Closing balance	9,450,889	8,000,889

The Group had 5 customers that accounted for approximately 21% (2021: 20%) of total outstanding trade receivable. Information about credit risk is disclosed in note 24.

9 Advances, prepayments and other receivables

	Note	December 31, 2022	December 31, 2021
Advances to suppliers		11,385,608	7,977,842
Prepayments		5,126,537	3,790,921
Employee loans		4,462,570	3,103,272
Margin on letters of guarantee		187,625	187,625
Other receivables		5,571,399	1,089,212
		26,733,739	16,148,872

10 Cash and cash equivalents

	December 31, 2022	December 31, 2021
Cash at banks	9,721,393	12,716,784
Cash in hand	354,125	84,735
	10,075,518	12,801,519

The cash is held in current accounts with banks having sound credit ratings and does not carry any mark-up. The carrying value at each reporting date is estimated to be the same as their fair value.

11 Share capital

At December 31, 2022 and December 31, 2021, the Parent Company share capital is divided into 20 million shares of Saudi Riyals 10 each and held by the following shareholders:

Name of the shareholders	Country of incorporation	December 31, 2022	December 31, 2021
Zamil Group Holding Company	Kingdom of Saudi Arabia	60,000,000	60,000,000
Omar K. Alesayi & Company	Kingdom of Saudi Arabia	60,000,000	60,000,000
Frimex Investment (L.L.C)	United Arab Emirates (note 1)	60,000,000	60,000,000
Zamil Group Investment Company	Kingdom of Saudi Arabia	10,000,000	10,000,000
Eastern Industrial Investment Company	Kingdom of Saudi Arabia	10,000,000	10,000,000
Total		200,000,000	200,000,000

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

12 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Parent Company is required to transfer 10% of the profit for the year to a statutory reserve until it equals to 30% of its share capital. This limit was attained in prior years and no additional transfer is required. The reserve is not available for distribution to the shareholders of the Group.

13 Short term borrowings

Short term borrowings are obtained from local banks to finance the working capital of the Group. These are secured against promissory notes and carry commission at commercial rates.

14 Employee benefit obligations

The Group operates a defined benefit plan in line with the labour law requirements in the Kingdom of Saudi Arabia. The end of service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the labour laws of the Kingdom of Saudi Arabia. Employees' end of service benefit plan is an unfunded plan, and the benefit payment obligations are met by the Group when they fall due upon termination of employment.

14.1 Movement in present value of employee benefit obligations

	2022	2021
Opening balance	49,924,820	50,329,063
Addition relating to acquisition of a subsidiary	8,220,326	-
Transfer	(9,028)	-
Current service cost	5,581,101	5,363,742
Interest cost	1,545,709	1,059,370
Benefits paid	(4,252,813)	(4,104,295)
Re-measurement gain	(6,784,666)	(2,723,060)
Closing balance	54,225,449	49,924,820

14.2 Amount recognized in the statement of profit or loss and other comprehensive income

	2022	2021
Current service cost	5,581,101	5,363,742
Interest cost	1,545,709	1,059,370
Re-measurement gain	(6,784,666)	(2,723,060)
	342,144	3,700,052

14.2 Key actuarial assumptions

	2022	2021
Discount rate	4.75%	2.55%
Future salary growth		
First year	4.00%	3.50%
Second year	4.00%	4.00%
Thereafter	4.50%	4.00%
Mortality rate	1.37-11.84	1.28-10.55
	per thousand	per thousand
Employee turnover/ withdrawal rates	Moderate	Moderate
Retirement age	60 years	60 years

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

14 Employee benefit obligations (continued)

14.2 Key actuarial assumptions (continued)

The quantitative sensitivity analysis for principal assumptions is as follows:

	Change in assumption		Impact on employee benefit obligations			
			Increase in assumption		Decrease in assumption	
	2022	2021	2022	2021	2022	2021
Discount rate	0.5%	0.5%	(34,663)	(1,961,143)	4,069,140	2,114,812
Salary growth rate	0.5%	0.5%	3,681,012	1,948,276	(379,574)	(1,827,008)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

The weighted average duration of the defined benefit obligation is 7.0 years (2021: 8.08 years).

The expected maturity analysis of undiscounted employee benefit obligations is as follows:

	December 31, 2022	December 31, 2021
Up to 1 year	7,303,137	3,274,535
2 - 5 years	27,051,222	22,458,428
Over 5 years	32,002,717	26,766,917

15 Accrued and other liabilities

	December 31, 2022	December 31, 2021
Accrued expenses	30,843,552	35,539,683
Advances from customers	9,333,511	7,606,394
Refund liabilities	4,850,888	1,901,130
Other	27,007,680	4,510,397
	72,035,631	49,557,604

16 Zakat and income tax matters

16.1 Components of zakat base

The Parent Company and the Subsidiary Company files separate zakat and income tax declarations on an unconsolidated basis. The significant components of the zakat base of each company under the zakat and income tax regulations are principally comprised of shareholder's equity adjusted by dividends, provisions at the beginning of the year net of adjustments and adjusted net income, less deductions for the book value of deductible assets.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

16 Zakat and income tax matters (continued)

16.2 Provision for zakat and income tax

	Zakat	Income tax	Total
January 1, 2021	2,136,007	2,217,444	4,353,451
Provisions for the year	1,398,442	111,215	1,509,657
Adjustment related to prior year	190,064	-	190,064
Payments	(2,260,993)	(3,321,840)	(5,582,833)
Reclassified to prepayment and other receivables (Note 9)	-	993,181	993,181
December 31, 2021	1,463,520	-	1,463,520
Addition relating to acquisition of a subsidiary	107,618	-	107,618
Provisions for the year	2,259,111	4,298,590	6,557,701
Payments	(371,279)	-	(371,279)
Adjustment from prepayment	(1,182,719)	(86,057)	(1,268,776)
December 31, 2022	2,276,251	4,212,533	6,488,784

16.3 Deferred tax assets

The balance comprises temporary differences attributable to:

	2022	2021
Difference in accounting and tax base of property, plant and equipment	307,184	(1,040,575)
Goodwill	(788,807)	(621,596)
Intangible asset	-	271,855
Inventories allowance	2,627,464	2,627,464
Receivables allowance	567,053	480,053
Employee benefit obligations	3,253,525	2,995,489
Net deferred tax assets	5,966,419	4,712,690
	2022	2021
As at January 1,	4,712,690	2,699,011
Deferred tax credit during the year recognised in profit or loss	1,660,809	2,177,063
Deferred tax credited/(charged) to other comprehensive income	(407,080)	(163,384)
As at December 31,	5,966,419	4,712,690

16.4 Status of final assessments

Zakat assessments of the Parent Company have been agreed with the Zakat, Tax and Customs Authority (ZATCA) up to 2012 and for the years 2015 to 2017.

During 2019, the Parent Company received assessment for the years 2013 and 2014 claiming additional zakat aggregating to Saudi Riyals 3.5 million due to certain additions to zakat base made by ZATCA. The Parent Company submitted an objection to ZATCA against the total amount of assessment for these years. Following the Parent Company's objection, a revised assessment, reducing the additional zakat claim to Saudi Riyals 2.6 million was issued by ZATCA after accepting the Parent Company's contention on depreciation.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

16 Zakat and income tax matters (continued)

16.4 Status of final assessments (continued)

The Parent Company escalated the objection against the revised assessment issued by ZATCA through the General Secretariat of Tax Committees (GSTC) to Tax Violations and Disputes Resolution Committee ("TVDRC"). During 2021, GSTC scheduled a hearing on Parent Company's objections where TVDRC ruled partially in favor of the Parent Company thereby reducing the assessment to Saudi Riyals 2 million. The Parent Company subsequently escalated its objection through GSTC which is awaited hearing by the Tax Violations and Disputes Appeal Committee.

Further, during the year, the zakat assessment for the years 2016 and 2017 were finalized resulting in an additional zakat liability amounting to Saudi Riyals 0.37 million which was paid by the Parent Company.

The assessment for the year 2018 to 2021 have not yet been raised by ZATCA.

Prior to acquisition, the zakat assessments of the subsidiary have been finalised up to the period ended 30 September 2013. Zakat returns for the subsidiary company has been filed up to the year ended 31 December 2021 with the ZATCA as part of consolidated returns by the previous shareholders.

The assessments for the years 2014 to 2021 have not yet been raised by ZATCA. Any liability arising in respect of prior years up to the date of the control transfer shall be borne by the previous shareholders as per the terms agreed with them.

16.5 Income tax

The major components of income tax in the statement of profit or loss can be broken down as follows for the year ended December 31:

	2022	2021
Current income tax	4,298,590	111,215
Deferred income tax	(1,660,809)	(2,177,063)
Total income tax (credit)/charge reported in the statement of profit or loss	2,637,781	(2,065,848)
Deferred tax charged/(credited) to OCI - remeasurement gain/(loss) on defined benefit obligations	407,080	163,384

17 Cost of sales

	Note	2022	2021
Material cost		1,017,850,127	755,164,352
Employee cost		91,333,165	78,331,807
Depreciation on property, plant and equipment	4	48,835,036	47,429,428
Depreciation on right-of-use assets	6	5,735,280	5,914,468
Utilities		22,515,129	19,059,117
Others		41,015,162	35,703,801
		1,227,283,899	941,602,973

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

18 Selling and distribution expenses

	Note	2022	2021
Delivery cost		31,549,199	28,236,702
Employee cost		16,695,884	13,924,964
Depreciation on property, plant and equipment	4	285,992	264,542
Depreciation on right-of-use assets	6	64,882	58,794
Insurance		204,839	173,987
Others		1,739,124	417,611
		50,539,920	43,076,600

19 General and administrative expenses

	Note	2022	2021
Employee cost		36,153,695	31,034,486
Board of Directors' remuneration	22	1,200,000	1,200,000
Staff relations		6,763,521	6,429,959
License and software maintenance		4,550,779	4,014,662
Depreciation on property, plant and equipment	4	3,016,011	2,896,839
Depreciation on right-of-use assets	6	953,052	899,412
Amortization of intangible asset		2,030,501	2,317,617
Expenses related to COVID-19		-	23,595
Repairs and maintenance		2,585,814	1,366,099
Professional fees		4,596,314	2,722,766
Utilities		1,308,755	1,311,457
Insurance		409,378	347,974
Others		5,087,980	5,037,257
		68,655,800	59,602,123

20 Finance costs

	Note	2022	2021
Loss on de-recognition of financial instrument		1,523,417	674,737
Finance cost on lease liabilities	6	880,526	898,165
Finance cost on short term borrowings		1,809,806	365,941
Others		801,736	383,305
		5,015,485	2,322,148

21 Other income

	Note	2022	2021
Reversal of impairment on property, plant and equipment	4	1,323,637	2,832,417
Reversal of impairment loss of inventories	7	-	800,000
Miscellaneous		2,182,493	669,971
		3,506,130	4,302,388

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

22 Related party transactions and balances

Related parties comprise the shareholders, directors and key management personnel of the Group and entities significantly influenced by such parties. The following are the details of major related party transactions during the year:

22.1 Related party transactions

Transaction with	Nature of transaction	2022	2021
Sister concerns	Sales during the year	52,692,883	44,602,906
Sister concerns	Services received	2,365,459	-

22.2 Related party balances

	December 31, 2022	December 31, 2021
Due from related parties classified under trade receivables	10,253,642	7,902,427
Due to related parties classified under trade payables	816,743	-

Outstanding balances are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2021: Saudi Riyals Nil). This assessment is undertaken each financial year by examining the financial position of the related parties and the market in which the related party operates.

22.3 Key management personnel compensation

Key management personnel are those who have the authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. Compensation of the Group's key management personnel includes salaries, non-cash benefits and contributions to employee benefit obligations.

	2022	2021
Salaries and other benefits	6,366,404	6,566,033
Employee benefit obligations	516,354	617,866
Board of Directors' remuneration	1,200,000	1,200,000

23 Commitments and contingencies

Contingencies

At December 31, 2022, the Group has outstanding letters of credit and bank guarantees amounting to Saudi Riyals 0.86 million (2021: Saudi Riyals 0.69 million) issued in the normal course of business.

Commitments

At December 31, 2022, the Group has future capital commitments amounting to Saudi Riyals 12.8 million (2021: Saudi Riyals 10 million).

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

24 Financial instruments

24.1 Financial assets

	Note	December 31, 2022	December 31, 2021
Financial assets at amortised cost			
Trade receivables	8	200,452,223	186,884,347
Due from related parties	8	10,253,642	7,902,427
Employee loans	9	4,462,570	3,103,272
Margin on letters of guarantee	9	187,625	187,625
Other receivables	9	5,293,355	96,031
Cash and cash equivalents	10	10,075,518	12,801,519
Total financial assets		230,724,933	210,975,221

Trade and other receivables

Trade and other receivables are non-derivative financial assets carried at amortised cost. The carrying value may be affected by changes in the credit risk of the counterparties.

24.2 Financial liabilities

	Note	December 31, 2022	December 31, 2021
Financial liabilities at amortized cost			
Trade payables		176,080,041	211,779,022
Accrued and other liabilities	15	41,192,079	14,017,921
Lease liabilities	6	14,757,028	15,809,339
Short term borrowings		139,718,094	70,000,000
Total financial liabilities		371,747,242	311,606,282

The carrying amount of financial assets and liabilities approximates their fair value. Financial assets are not considered to pose a significant credit risk.

24.3 Financial risk management

The Group's top management has overall responsibility for the establishment and oversight of the Group's risk management framework.

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

The audit committee monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk (currency risk, fair value and cash flow commission rate risk and price risk)

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

24 Financial instruments (continued)

24.3 Financial risk management (continued)

a) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions and credit exposures to customers outstanding receivables from other parties.

For banks, only independently rated parties having sound credit ratings are accepted. For trade receivables, the Group assesses the credit quality of the customers, taking into account various factors such as their financial position, past experience and other factors. Individual risk limits are set in accordance with limits set by the management. The compliance with credit limits by customers is regularly monitored by line management. Refer to Note 8 for concentration of credit risk on trade receivables.

A default on a trade receivable occurs when the counterparty fails to make contractual payments within 90 days of when they fall due. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categorizes a receivable for write-off when a debtor fails to make contractual payments greater than 365 days past due. Where receivables have been categorized as for written-off, the Group continues to engage in enforcement activity to attempt to recover the receivable due unless the cost of such activity is expected to be higher than the benefit of doing so. Where recoveries are made, these are directly recognised in the consolidated statement of profit and loss.

- Impairment of financial assets

The Group's gross exposure to credit risk at the reporting date is as follows:

	December 31, 2022	December 31, 2021
Trade receivables	209,903,112	194,885,236
Due from related parties	10,253,642	7,902,427
Employee loans	4,462,570	3,103,272
Margin on letters of guarantee	187,625	187,625
Other receivables	5,293,355	96,031
Cash at bank	9,721,393	12,716,784
	239,821,697	218,891,375

The Group uses the forward-looking 'expected credit loss' (ECL) model to measure the impairment loss on financial assets. Cash at banks are placed with banks with sound credit ratings. Employee and other receivables are considered to have low credit risk therefore, 12 months expected loss model was used for impairment assessment. Based on management's impairment assessment, there is no provision required in respect of these balances for all the years presented.

For trade receivables, the Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables based on a provision matrix. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The provision matrix takes into account historical credit loss experience and is adjusted for average historical recovery rates. The historical loss rates are also considered to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group considers the most relevant macro-economic factors of forward looking information that would impact the credit risk of the customers, and accordingly adjusts the historical loss rates based on expected changes in these factors.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

24 Financial instruments (continued)

24.3 Financial risk management (continued)

a) Credit risk (continued)

The trade receivables balance from the related parties are from the affiliates of the Group having the shareholders in common. Based on management's impairment assessment, there is no provision required in respect of these balances for all the periods presented as they are considered to have low credit risk.

Impairment losses on financial assets recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	December 31, 2022	December 31, 2021
Impairment of trade receivables	1,450,000	700,000

The following table provides information about the exposure to credit risk and ECLs for trade receivables from external customers:

	December 31, 2022						
	Current	<90 days	90-180 days	181-270 days	271-365 days	>year	Total
Expected credit loss rate							
Estimated total gross carrying amount at default	0.67%	1.84%	22.35%	57.86%	98.76%	100%	
Expected credit loss	161,611,324	38,084,187	1,692,063	2,828,078	2,205,816	3,481,644	209,903,112
	1,076,959	699,392	378,195	1,636,197	2,178,502	3,481,644	9,450,889
	December 31, 2021						
Expected credit loss rate							
Estimated total gross carrying amount at default	0.64%	1.60%	20.91%	49.05%	100%	100%	
Expected credit loss	135,038,124	49,795,022	3,450,729	1,680,615	766,842	4,153,904	194,885,236
	739,321	794,800	721,632	824,390	766,842	4,153,904	8,000,889

b) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. For instance, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, bank overdraft or reliance on a particular market in which to realise liquid assets. Contractual undiscounted cashflows as of December 31, 2022 and 2021 are:

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

24 Financial instruments (continued)

24.3 Financial risk management (continued)

	Within 12 months	More than 12 months	Total	Carrying amount
December 31, 2022				
Short term borrowings	139,718,094	-	139,718,094	139,718,094
Lease liabilities	7,892,381	8,242,953	16,135,334	14,757,028
Trade payables	176,080,041	-	176,080,041	176,080,041
Accrued and other liabilities	47,204,621	-	47,204,621	47,204,621
	370,895,137	8,242,953	379,138,090	377,759,784
	Within 12 months	More than 12 months	Total	Carrying amount
December 31, 2021				
Short term borrowings	70,000,000	-	70,000,000	70,000,000
Lease liabilities	6,511,865	11,074,923	17,586,788	15,809,339
Trade payables	211,779,022	-	211,779,022	211,779,022
Accrued and other liabilities	41,951,210	-	41,951,210	41,951,210
	330,242,097	11,074,923	341,317,020	339,539,571

Refer to Note 10 for closing cash position of the Group. The Group's terms of sales require amounts to be paid either on a cash on delivery or on terms basis.

c) Market risk

Market risk is the risk that changes in market prices - such as foreign exchange rates, interest rates and equity prices - will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the returns. Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. Market risk comprises of three types of risk: currency risk, commission rate risk and other price risk.

i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in currency that is not the Group's functional currency. The Group's transactions are principally in Saudi Riyals and United States Dollars. The management believes that there is no currency risk arising from the transactions in currencies to which the Saudi Riyals is pegged.

ii) Commission rate risk

Commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing commission rates on the Group's financial position and cash flows. The Group manages the commission rate risk by regularly monitoring the commission rate profiles of its commission bearing financial instruments. The Group's commission -bearing liabilities, which are mainly bank borrowings, are at floating rates of commission, which are subject to re-pricing. Management monitors the changes in commission rates and believes that the fair value risks to the Group are not significant. There are no commission bearing financial assets at the end of reporting period.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2022
(All amounts in Saudi Riyals unless otherwise stated)

24 Financial instruments (continued)

24.3 Financial risk management (continued)

c) *Market risk* (continued)

The commission rate profile of the Group's commission -bearing financial instruments as reported to the management of the Group is as follows:

	December 31, 2022	December 31, 2021
Financial liabilities, principally borrowings	<u>139,718,094</u>	<u>70,000,000</u>
Profit or loss is sensitive to higher/lower commission expense on borrowings as a result of changes in commission rates. The following table demonstrates the sensitivity to a reasonable possible change in commission rate on the Group's profit before zakat, through the impact of floating rate borrowings:		
	2022	2021
Commission rate-increases by 100 basis points	(1,397,181)	(700,000)
Commission rate-decreases by 100 basis points	1,397,181	700,000

iii) *Price risk*

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from special commission rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or it's issuer, or factors affecting all similar financial instruments traded in the market. The Group does not have any financial instruments that are subject to price risk.

d) *Capital management*

The primary objective of the Group's capital management is to ensure that it maintains a proper capital ratio in order to support its business and maximise shareholders' value. The capital structure includes all components of equity. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitor capital on the basis of the gearing ratio. This ratio is calculated based on the net debt divided by total capital.

	December 31, 2022	December 31, 2021
Borrowings	139,718,094	70,000,000
Lease liabilities	15,818,178	15,809,339
Less: cash and cash equivalents	(10,075,518)	(12,801,519)
Net debt (A)	145,460,754	73,007,820
Shareholders' equity (B)	418,170,596	376,455,669
Total capital (A+B)	563,631,350	449,463,489
Gearing ratio (A / (A+B))	25.81%	16.24%

25 Dividends

During the year the shareholders approved and paid dividend of Saudi Riyals 25 million (2021: Saudi Riyals 25 million).