

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

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
AND INDEPENDENT AUDITOR'S REPORT**

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

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 – 53



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 subsidiaries (together the "Group") as at December 31, 2023, 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, 2023;
- 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, comprising material accounting policy information 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 i.e, the Board of Directors, 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



April 4, 2024

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, 2023	As at December 31, 2022 (Restated Note 31)
Assets			
Non-current assets			
Property, plant and equipment	4	378,805,743	347,682,938
Goodwill	5	38,228,526	38,228,526
Intangible assets		4,410,427	345,387
Right-of-use assets	6	48,032,188	12,454,148
Deferred tax assets	16	9,176,906	5,041,144
Total non-current assets		478,653,790	403,752,143
Current assets			
Inventories	7	170,184,757	240,552,420
Trade receivables	8	223,005,431	210,705,865
Advances, prepayments and other receivables	9	23,324,282	26,611,187
Cash and cash equivalents	10	30,586,197	10,075,518
Total current assets		447,100,667	487,944,990
Total assets		925,754,457	891,697,133
Equity and liabilities			
Equity			
Share capital	11	200,000,000	200,000,000
Statutory reserve	12	60,000,000	60,000,000
Retained earnings		222,616,209	167,351,695
Foreign currency translation reserve		(546,329)	-
Total equity		482,069,880	427,351,695
Liabilities			
Non-current liabilities			
Lease liabilities	6	42,517,345	8,948,890
Employee benefit obligations	14	63,830,022	54,225,449
Total non-current liabilities		106,347,367	63,174,339
Current liabilities			
Trade payables		173,355,541	176,080,041
Accrued and other liabilities	15	114,837,247	72,035,631
Short term borrowings	13	30,168,532	139,718,094
Current portion of lease liabilities	6	7,612,644	6,848,549
Zakat and tax payable	16	11,363,246	6,488,784
Total current liabilities		337,337,210	401,171,099
Total liabilities		443,684,577	464,345,438
Total equity and liabilities		925,754,457	891,697,133

The accompanying notes on pages from 8 to 53 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, 2023	December 31, 2022
			(Restated Note 31)
Revenue	17	1,361,796,751	1,414,673,208
Cost of sales	18	(1,077,458,925)	(1,260,961,312)
Gross profit		284,337,826	153,711,896
Selling and distribution expenses	19	(23,359,632)	(19,257,945)
General and administrative expenses	20	(85,726,727)	(68,081,811)
Allowance for impairment of trade receivables	8	(750,000)	(1,450,000)
Fair value losses on financial assets		(2,844,333)	(1,930,030)
Bargain purchase gain on acquisition of a subsidiary	31	-	14,798,962
Other income - net	21	3,009,630	188,928
Operating profit		174,666,764	77,980,000
Finance costs	22	(7,736,053)	(3,564,668)
Profit before zakat and income tax		166,930,711	74,415,332
Zakat expense	16	(3,833,795)	(2,259,111)
Income tax	16	(6,399,152)	(2,637,781)
Net profit for the year		156,697,764	69,518,440
Other comprehensive income			
<i>Items that will be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		(546,329)	-
<i>Items that will not be reclassified to profit or loss:</i>			
Re-measurement (loss) / gain on employee benefit obligations	14	(2,012,725)	6,784,666
Deferred tax relating to re-measurement gain/(loss)	16	126,475	(407,080)
Total other comprehensive (loss)/income for the year		(2,432,579)	6,377,586
Total comprehensive income for the year		154,265,185	75,896,026
Earnings per share attributable to the shareholders of the Parent			
Basic and diluted	27	7.83	3.48

The accompanying notes on pages from 8 to 53 form an integral part of these consolidated financial statements.

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

	Share capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Total
At January 1, 2022	200,000,000	60,000,000	116,455,669	-	376,455,669
Profit for the year – Restated (Note 31)	-	-	69,518,440	-	69,518,440
Other comprehensive income for the year	-	-	6,377,586	-	6,377,586
Total comprehensive income for the year	-	-	75,896,026	-	75,896,026
<i>Transactions with owners in their capacity as owners:</i>					
Dividend (Note 29)	-	-	(25,000,000)	-	(25,000,000)
At December 31, 2022 – Restated	200,000,000	60,000,000	167,351,695	-	427,351,695
Profit for the year	-	-	156,697,764	-	156,697,764
Other comprehensive income for the year	-	-	(1,886,250)	(546,329)	(2,432,579)
Total comprehensive income for the year	-	-	154,811,514	(546,329)	154,265,185
<i>Transactions with owners in their capacity as owners:</i>					
Dividend (Note 29)	-	-	(99,547,000)	-	(99,547,000)
At December 31, 2023	200,000,000	60,000,000	222,616,209	(546,329)	482,069,880

The accompanying notes on pages from 8 to 53 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)

	Note	Year ended December 31, 2023	Year ended December 31, 2022 (Restated Note 31)
Cash flows from operating activities			
Profit before zakat and income tax		166,930,711	74,415,332
<u>Adjustments for:</u>			
Depreciation on property, plant and equipment	4	62,396,764	53,835,936
Depreciation on right-of-use assets	6	7,925,918	6,875,766
Amortisation of intangible assets		368,568	2,030,501
Employee benefit obligations	14	8,386,715	7,126,810
(Gain)/loss on disposal of property, plant and equipment	21	(941,160)	11,007
Finance costs on short term borrowings	22	5,512,708	1,809,806
Bargain purchase gain on acquisition of subsidiary	21	-	(14,798,962)
Finance costs on lease liabilities	22	1,701,065	953,125
Exchange gains		(436,038)	-
Impairment of trade receivables	8	750,000	1,450,000
Changes in working capital:			
Inventories		78,554,587	(59,289,299)
Trade receivables		23,346,794	384,857
Advances, prepayments and other receivables		5,219,149	(2,360,935)
Trade payables		(12,188,607)	(52,136,673)
Accrued and other liabilities		(1,289,735)	638,099
Cash generated from operations		346,237,439	20,945,370
Zakat and income tax paid	16	(9,367,772)	(371,279)
Employee benefit obligations paid	14	(5,988,599)	(4,252,813)
Finance costs paid		(7,115,504)	(2,690,332)
Net cash inflow from operating activities		323,765,564	13,630,946
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(34,838,007)	(15,563,678)
Proceeds from disposal of property, plant and equipment		1,439,551	242,830
Purchase of intangible assets		(278,907)	(391,689)
Acquisition of a subsidiary – net	2.2	(50,668,653)	(39,061,567)
Net cash outflow from investing activities		(84,346,016)	(54,774,104)
Cash flows from financing activities			
Dividends paid	28	(99,547,000)	(25,000,000)
Short-term borrowings - net	30(b)	(109,549,562)	69,718,094
Repayment of principal portion of lease liabilities		(9,704,484)	(6,940,023)
Net cash (outflow)/inflow from financing activities		(218,801,046)	37,778,071
Net increase/(decrease) in cash and cash equivalents		20,618,502	(3,365,087)
Effect of exchange rate change on cash and cash equivalent		(107,823)	-
Cash and cash equivalents at the beginning of the year	10	10,075,518	12,801,519
Cash and cash equivalents of an acquired subsidiary		-	639,086
Cash and cash equivalents at the end of the year	10	30,586,197	10,075,518
Supplemental non-cash information			
Right-of-use assets and lease liabilities		43,938,764	6,855,525

The accompanying notes on pages from 8 to 53 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, 2023**

(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.

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

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

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
9	Al Hassa	2257-024095

These consolidated financial statements were authorised for issue by the Parent Company's Board of Directors on April 2, 2024.

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

Subsidiary name	Country of incorporation	Principle business activity	Ownership interest percentage	
			2023	2022
Integrated Packaging Industries Company ("IPIC")	Saudi Arabia	Manufacturing of paper from pulp, corrugated cardboard and paper products for household purposes.	100%	100%
United Paper Industries Company FZCO (previously known as "Gulf Paper Manufacturing FZCO") ("UPIC")	United Arab Emirates	Manufacturing of paper, packing and packaging material.	100%	-

2 Material accounting policies**2.1 Basis of preparation**

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

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the 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").

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)**2.1 Basis of preparation (continued)***(b) Historical cost convention*

These consolidated financial statements have been prepared on a historical cost convention, and on going concern basis, unless stated otherwise. The Group has prepared the financial statements on the basis that it will continue to operate as a going concern.

2.2 Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Acquisition of United Paper Industries Company FZCO (previously known as "Gulf Paper Manufacturing FZCO")

During 2023, the Parent company signed an agreement to acquire 100% of the shares of United Paper Industries Company FZCO (previously known as "Gulf Paper Manufacturing FZCO"), United Arab Emirates, for a total consideration of Saudi Riyals 104.7 million. The control was transferred to the Group on July 28, 2023. The Group acquired United Paper Industries Company to expand its operations in the Middle East market and as a first step towards backward integration. The management believes that this acquisition will partially mitigate supply risk of brown paper due to the cyclical impact of paper prices.

The net identifiable assets of UPIC at the date of acquisition were as follows:

	Saudi Riyals
Property, plant and equipment	59,398,490
Customer relationships	4,145,544
Right-of-use assets	14,703,758
Inventories	8,186,924
Trade receivables and prepayments	38,328,604
Bank balances and cash	13,182,947
Employee benefit obligations	(5,236,562)
Lease liabilities	(15,142,160)
Trade payables and accruals	(12,825,906)
Net identified assets acquired	<u>104,741,639</u>
Goodwill computation	
Purchase consideration	104,741,639
Less: value of net assets acquired	<u>104,741,639</u>
Goodwill arising on acquisition	<u>-</u>

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)**2.2 Basis of consolidation (continued)**

The summary of the statement of comprehensive income for the acquired subsidiary since the acquisition date:

	From July 28, 2023 to December 31, 2023
Revenue	42,172,232
Gross profit	2,342,041
Loss before tax	(212,563)

If the acquisition had occurred on January 1, 2023, the pro-forma revenue and profit of the combined entity for the year ended December 31, 2023 would have been Saudi Riyals 1.42 billion and Saudi Riyals 165.7 million respectively.

These amounts have been calculated using the subsidiary's results and adjusting them for:

- Differences in the accounting policies between the group and the subsidiary, and
- The additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from January 1, 2023, together with the consequential tax effects.

The subsidiary has no contingent liabilities or capital commitments as at December 31, 2023.

The fair value and gross contractual amount of acquired trade receivables is Saudi Riyals 36.4 million, with a loss allowance of nil recognised on acquisition.

Purchase consideration – cash outflow

	2023
Outflow of cash to acquire the subsidiary, net of cash acquired	
Cash consideration paid	63,851,600
Less: Cash acquired	(13,182,947)
Net cash outflow – investing activities	<u>50,668,653</u>

Acquisition-related costs

Acquisition-related costs of Saudi Riyals 0.4 million are included in administrative expenses in profit or loss and in operating cash flows in the consolidated statement of cash flows.

Measurement period adjustment – Integrated Packaging Industries Company

During the financial year of 2023, the management finalised the purchase price allocation of net assets and liabilities attributable to Integrated Packaging Industries Company, acquired during 2022, and recognised a fair value adjustment of Saudi Riyals 12.4 million with a corresponding increase in the recognised amount of bargain purchase gain. Accordingly, the carrying value of property, plant and equipment was retrospectively adjusted to reflect the fair value adjustment less the additional depreciation that would have been recognised if the assets' fair value had been recognised from the acquisition date.

The bargain purchase gain is resulting mainly from the reduction in working capital between December 31, 2019 (the date used for working capital) and the finalisation date which is March 30, 2022.

The fair value impact of the purchase price allocation on each of the financial statement line items as at and for the year ended December 31, 2022 is presented in Note 31.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)

2.3 Business combination and goodwill

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of:

- consideration transferred
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised immediately in profit or loss.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

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

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

Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)

2.3 Application of new and amended standards and interpretations

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for its annual period commencing 1 January 2023:

- IFRS 17, Insurance Contracts
- Definition of Accounting Estimates – Amendments to IAS 8
- Amendment to IAS 12 – International tax reform (OECD Pillar Two Rules)

The following amendments are effective from the annual period commencing 1 January 2023 but the Group has early adopted the amendments in the comparative period.

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

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 amendments to accounting standards have been published that are not mandatory for December 31, 2023 reporting periods and have not been early adopted by the Group. Management is currently evaluating the impact these amendments and they are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

The material 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.

2.4 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 entities operate (the “functional currency”). The consolidated financial statements are presented in Saudi Riyals.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group companies 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.

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)

(iii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyals at the rate of exchange prevailing at the reporting date and their statements of profit or loss and other comprehensive income are translated at the average exchange rates. The exchange differences arising on the translation of foreign operations are recognised in other comprehensive income. On partial or full disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.6 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.

2.7 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 and other comprehensive income.

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 at 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, 2023

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)

2.7 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
• 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 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 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.

2.8 Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. Intangible assets acquired in a business combination are recognised at their fair value as at the date of acquisition.

Following initial recognition, intangible assets having a finite useful life are carried at cost less any accumulated amortisation and any accumulated impairment losses, if any.

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

Category	Useful life
Computer software	4-10 years
Customer relationship	8 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)

2.9 Leases

At the inception of the contract, the Group assesses whether a contract is or contains a lease. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liabilities

The lease liability is initially measured at the net present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

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 the individual lessee, which does not have recent third-party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

Lease liabilities include the net present value of the following lease payments:

- fixed lease payments, less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the consolidated statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)

2.9 Leases (continued)

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, initial direct costs and restoration costs, if any. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any.

Right-of-use assets are depreciated over the shorter period of the lease term or the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies IAS 36 "Impairment of Assets" to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss. Refer note 2.10 for detail.

2.10 Impairment of non-financial assets other than inventories

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used such as valuation multiples (including earnings multiples), quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed projections which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These projections are generally covering a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

2.11 Inventories

Finished goods

Inventories are carried at the lower of cost and 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 and net realisable value. Cost is determined on the weighted average cost basis.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)

2.11 Inventories (continued)

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

2.12 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 recognised at fair value. Other receivables are initially measured at fair value. They are subsequently measured at amortised cost using the effective interest method, less loss allowance. The carrying amount of trade and other receivables is tested for impairment in accordance with the policy described in note 2.15.1.

Other portfolios of trade receivables originated to be placed under factoring arrangements are initially measured at their transaction price, unless they contain a significant financing component in which case they are measured initially at fair value. These are subsequently measured at fair value through profit or loss as they are originated with a business model of selling to finance institutions therefore cannot be measured at amortized cost or fair value through other comprehensive income.

2.13 Prepayments

Prepayments are initially recognised at the transaction price.

2.14 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, that are readily convertible to known amounts of cash with insignificant risk of changes in value if any.

2.15 Financial instruments

2.15.1 Financial assets

The Group classifies its financial assets under the following categories

- Amortised cost
- Fair value through profit or loss (FVTPL)

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

The Group measures a 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 in profit or loss of the consolidated 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, 2023

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)

2.15 Financial instruments (continued)

(i) Recognition and derecognition

The Group initially recognises financial assets on the date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises 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 recognised as a separate asset or liability.

(ii) Measurement

At initial recognition, the Company 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 consolidated statement of profit or loss and comprehensive income.

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 instruments and are measured at amortised 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 recognises 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.

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) recognised during the period is recognised in profit or loss.

2.15.2 Financial liabilities

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

A financial liability is derecognised 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 recognised in the profit or loss of the consolidated statement of profit or loss and other comprehensive income.

2.15.3 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 recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)

2.16 Employee benefit obligations

Short-term employee benefits

Provision is made for benefits accruing to employees in respect of salaries and wages, vacation leaves, ticket and other benefits when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months, if any, are measured at an undiscounted amount using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits, which are not expected to be settled within 12 months, are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Employee termination benefits

The Group operates a defined benefit scheme for its employees in accordance with the applicable labor regulations. The cost of providing the benefits under the defined benefits plan is determined using the projected unit credit method.

Actuarial gains and losses are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises related restructuring costs

Interest expense is calculated by applying the discount rate to the net employees defined benefit liabilities. The Group recognises the following changes in the net defined benefit obligation under "Cost of sales", "General and administrative expenses" and "Selling and distribution expenses" in the consolidated statement of profit or loss and other comprehensive income (by function).

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and,
- Net interest expense or income

2.17 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 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 the 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 profit or loss, net of reimbursements.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)

2.19 Zakat and taxes

(i) Zakat and current income tax

Zakat and income tax is provided for in accordance with Zakat, Tax and Customs Authority regulations. Income tax for the foreign entity is provided for in accordance with the Federal corporate tax regime in UAE. Adjustments arising from final zakat and income tax assessments are recorded in the period in which such assessments are made.

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and unused tax losses can be utilised.

Deferred tax assets and liabilities are not recognised for temporary differences arising from the initial recognition of assets and liabilities in a transaction that: (i) is not a business combination, (ii) affects neither the taxable profit nor accounting profit, and (iii) does not create equal and opposite deferred tax assets and liabilities. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Withholding tax

The Group withholds 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.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)

2.20 Borrowings

Borrowings are recognised initially at the fair value, net of transaction costs incurred. 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 consolidated statement of profit or loss and other comprehensive income in the period in which they are incurred.

2.21 Revenue recognition

Revenue comprises sale of goods and services to its 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.

The Group recognises revenues based on a five-step model as set out in IFRS 15 as follows:

IFRS 15 requires that revenue is recognised from contracts with customers based on a five-step model as follows:

- Identification of contracts with customer;
- Identification of performance obligations in the contract;
- Determination of transaction price;
- Allocation of transaction price to performance obligations in the contract; and
- Recognition of revenue when the Group satisfies the performance obligation at a point in time or over time.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs; or
- The Company's performance creates or enhances an asset that the customer controls as the asset is created; or
- The Company's performance does not create an asset with an alternative use to the Company and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where any of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

A receivable is recognised when the goods are delivered or acknowledged by the customer as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. In determining the transaction price for the sale of goods or services, the Group considers the effects of the existence of significant financing components, variable consideration, non-cash consideration and consideration payable to the customer (if any). The Group also 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.

The Group has identified the transportation service as a separate performance obligation for the sales of goods which the group transfers control to the customer over-time and promised to deliver the goods to the customer destination.

The Group does not have contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year, and as a result, the Group does not adjust transaction prices for the time value of money.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)

2.21 Revenue recognition (continued)

The following is a description of the principal activities, from which the Group generates its revenues,:

(i) Sale of corrugated carton, plates, duplex cartons and pulp products

Revenue from the sale of these products that do not have an alternate use to the Group and that the Group has a legally enforceable right to payment for such goods, is recognised over a period of time.

(ii) Sale of paper packing and packaging materials.

Revenue is recognised when a customer obtains control of the goods or services (i.e. when it has the ability to direct the use of and obtain benefits from the goods or services). Customers obtain control when goods are delivered to and have been accepted by the customers as per the applicable delivery terms, and accordingly, revenue is recognised at that point-in-time.

(iii) Delivery and transportation service.

The Group recognises revenue from delivery and transportation services over the period of time when the goods are delivered to the customer destination.

Variable consideration

The Group provides volume rebates to certain customers on the products purchased by the customer once the quantity of products purchased during the period exceeds a threshold specified in the contract. The Group estimates the expected volume rebate using the “most likely amount” method. These estimates are reviewed on a regular basis and updated, if deemed necessary. These estimates are adjusted against revenue with the additional payable amount recorded under accrued and other liabilities. Such payable is de-recognized against a trade receivable at the point in time at which the actual final price is determined.

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.

2.23 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 General and administrative expenses

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

2.25 Operating profit

Operating profit is the result generated from the continuing principal revenue-producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes finance costs and income taxes.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

2 Material accounting policies (continued)

2.26 Dividends

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

2.27 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

The Board of Directors ("BoD") of the Group assesses the financial performance and position of the Group, and makes strategic decisions. The BoD has been identified as being the CODM.

Segment results that are reported to the Group's CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

2.28 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 Critical accounting estimates and judgements

The preparation of consolidated 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 6.1 million.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

3 Critical accounting estimates and judgements (continued)

(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 1.0 million.

(c) *Employee benefit obligations*

The cost of post-employment defined benefits is the present value of the related obligation, as determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, 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. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate and salary increment rate. As KSA does not have a deep corporate bonds market, the management has used a proxy discount rate based on yields of KSA Sukuk Bonds rates of the duration equal to the duration of liability. The expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The management uses historical data and salary growth trends in KSA to determine the salary increment rate. See Note 14 for the sensitivity of the assumptions used.

Key accounting judgements – Goodwill or bargain purchase gain

Acquisition of subsidiaries involve use of judgement in determining the fair value of net assets and liabilities of acquired investees. Measurement of fair value is a significant estimate that involves the use of models and data inputs. The Group engages external consultants to perform fair value assessment of net identifiable assets of subsidiaries on the date of acquisition. The goodwill or bargain purchase gain on the acquisition transaction is initially determined using book value of net assets on the date of acquisition. The Group uses the measurement period exemption of 12 months to finalise the purchase price allocation when the fair value of identified assets including goodwill or bargain purchase gain is determined.

In the prior year, the acquisition of IPIC resulted in a bargain purchase gain. This gain was increased by way of a restatement in these financial statements as a result of finalising the measurement period adjustments. The Company also reassessed all aspects of the transaction as required by IFRS 3 before concluding that this was indeed a bargain purchase. The reasons for this bargain purchase were:

- The acquiree operated in a non-core sector for the sellers and so they were keen to divest;
- At the time that the pricing was negotiated other operations existed within the acquired company (divested before closing of the deal) making it harder to assess the past performance of the business ultimately acquired and leading to a reduced purchase price; and
- It took a significant period of time to negotiate and complete the deal and target working capital and net debt amounts remained unchanged even after the acquiree completed some agreed divestitures, which led to downward adjustments to the purchase price.

The Company is satisfied that all aspects of the business combination have been appropriately identified and accounted for. The bargain purchase is further supported by the fact that consideration was lower than even the book value of net assets acquired and the acquiree has been profitable since purchased.

See note 31 for details of the finalisation of the purchase accounting.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

4 Property, plant and equipment

	2023						
	Land	Buildings	Motor vehicles	Machinery and equipment	Furniture and fixtures	Capital work-in-progress	Total
Cost:							
Opening balance – Restated	5,427,488	276,321,669	6,841,856	996,158,280	89,444,712	689,953	1,374,883,958
Additions	-	1,411,031	317,174	11,648,203	3,707,469	17,754,130	34,838,007
Disposals	-	(102,000)	(2,062,832)	(20,413,527)	(681,523)	-	(23,259,882)
Transfers to/(from) capital work-in-progress	-	7,401,999	-	7,352,211	1,323,125	(16,077,335)	-
Acquisition of a subsidiary (Note 2.2)	-	10,544,628	513,818	48,178,167	161,877	-	59,398,490
Translation adjustment	-	(122,093)	(17,706)	(209,670)	(10,459)	-	(359,928)
Closing balance	5,427,488	295,455,234	5,592,310	1,042,713,664	93,945,201	2,366,748	1,445,500,645
Accumulated depreciation and impairment loss:							
Opening balance – Restated	-	(137,925,167)	(4,644,869)	(798,930,389)	(85,700,595)	-	(1,027,201,020)
Charges for the year	-	(11,795,172)	(1,360,906)	(44,130,069)	(5,110,617)	-	(62,396,764)
Translation adjustment	-	35,849	13,503	82,904	9,135	-	141,391
Disposals	-	51,680	2,062,820	20,017,446	629,545	-	22,761,491
Closing balance	-	(149,632,810)	(3,929,452)	(822,960,108)	(90,172,532)	-	(1,066,694,902)
Net book value:							
December 31, 2023	5,427,488	145,822,424	1,662,858	219,753,556	3,772,669	2,366,748	378,805,743

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

4 Property, plant and equipment (continued)

	2022						
	Land	Buildings	Motor vehicles	Machinery and equipment	Furniture and fixtures	Capital work-in-progress	Total
Cost:							
Opening balance	5,427,488	248,977,214	4,652,118	955,315,181	82,582,675	1,863,154	1,298,817,830
Additions	-	807,915	453,700	4,099,772	1,537,999	8,664,292	15,563,678
Disposals	-	-	(403,420)	(6,302,860)	(572,570)	-	(7,278,850)
Transfers to/(from) capital work-in-progress	-	1,314,140	437,773	3,957,242	4,128,338	(9,837,493)	-
Acquisition of a subsidiary	-	21,780,137	21,249	31,212,519	1,443,337	-	54,457,242
Fair value adjustment (Note 2.2 & 31)	-	3,442,263	1,680,436	7,876,426	324,933	-	13,324,058
Closing balance – Restated (Note 31)	5,427,488	276,321,669	6,841,856	996,158,280	89,444,712	689,953	1,374,883,958
Accumulated depreciation and impairment loss:							
Opening balance	-	(128,082,226)	(4,013,058)	(769,333,970)	(78,960,843)	-	(980,390,097)
Charge for the year – Restated (Note 31)	-	(9,842,941)	(1,035,231)	(35,703,231)	(7,254,533)	-	(53,835,936)
Disposals	-	-	403,420	6,106,812	514,781	-	7,025,013
Closing balance – Restated (Note 31)	-	(137,925,167)	(4,644,869)	(798,930,389)	(85,700,595)	-	(1,027,201,020)
Net book value:							
December 31, 2022 - Restated	5,427,488	138,396,502	2,196,987	197,227,891	3,744,117	689,953	347,682,938

No borrowing costs were capitalised during the year ended December 31, 2023 and 2022 considering that there were no qualifying assets, which necessarily take a substantial period of time to get ready for intended use.

There are no assets provided as a collateral to loans and borrowings as at December 31, 2023 and 2022. The group changed the format and the layout of the Property, Plant and Equipment Note to provide more clarity and improve understandability of the Note to the users of the 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, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

4 Property, plant and equipment (continued)

During 2012, the Group received a notification from the 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 the 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 the 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.

Based on the information available to date, management doesn't expect impairment reversal to take place in the immediate future periods.

Depreciation charge for the year has been allocated as follows:

	Note	December 31, 2023	December 31, 2022 (Restated - Note 31)
Cost of sales	18	56,407,634	49,676,329
Selling and distribution expenses	19	194,287	553,216
General and administrative expenses	20	5,794,843	3,606,391
		62,396,764	53,835,936

5 Goodwill

	Note	December 31, 2023	December 31, 2022
Cost			
Opening balance		82,460,430	82,460,430
Additions for the year	2.2	-	-
Closing balance		82,460,430	82,460,430
Impairment			
Opening balance		(44,231,904)	(44,231,904)
Impaired during the year		-	-
Closing balance		(44,231,904)	(44,231,904)
Net book value		38,228,526	38,228,526

During the year, the group performed an impairment assessment of goodwill related to the acquisition of National Packing Products Company Limited ("NPPCL") which was acquired during 2015 with a resulting goodwill of Saudi Riyals 82.5 million which was subsequently impaired by an amount of Saudi Riyals 44.2 million and the remaining goodwill balance is Saudi Riyals 38.2 million. The results of the impairment test indicated no impairment charge because the head room was sufficient between the carrying amount of net assets amounting to Saudi Riyals 73.2 million and 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, 2023

(All amounts in Saudi Riyals unless otherwise stated)

5 Goodwill (continued)

These calculations use cash flow projections which are based on financial budgets approved by management covering a five-year period as well as the factors used in computing terminal value.

	NPPCL	
	2023	2022
Revenue growth rate (average)	2.50%	2.50%
Discount rate	11.76%	12.65%
Terminal growth rate	2.00%	2.00%

Sensitivity to the changes in assumptions:

	NPPCL			
	2023		2022	
	CGU recoverable amount	% change in CGU recoverable amount	CGU recoverable amount	% change in CGU recoverable amount
+1% Discount rate	309,981,488	(9%)	371,819,804	(4%)
-1% Discount rate	377,908,533	11%	399,812,377	4%
+1% Terminal growth rate	366,286,520	8%	411,664,244	7%
-1% Terminal growth rate	319,480,497	(6%)	363,770,290	(6%)
+1% Sales growth rate	368,430,948	8%	411,297,654	7%
-1% Sales growth rate	313,288,024	(8%)	360,325,611	(7%)

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 accommodation have lease terms of 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. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

	December 31, 2023	December 31, 2022
		(Restated Note 31)
Right-of-use assets		
Leasehold lands	18,239,693	6,583,423
Warehouses and accommodation	26,415,988	1,887,049
Motor vehicles	3,376,507	3,983,676
	48,032,188	12,454,148
Lease liabilities		
Non-current	42,517,345	8,948,890
Current	7,612,644	6,848,549
	50,129,989	15,797,439

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

6 Leases (continued)

The contractual maturities of lease liabilities (undiscounted basis) were as follows:

	December 31, 2023	December 31, 2022 (Restated Note 31)
Less than one year	9,568,434	6,847,258
Between 2 to 5 years	29,046,444	6,873,193
More than five years	30,155,019	4,126,274
	68,769,897	17,846,725

The following are the amounts recognised in profit or loss:

	2023	2022 (Restated Note 31)
Depreciation expense of right-of-use assets – Leasehold lands	905,864	505,055
Depreciation expense of right-of-use assets – Warehouses and accommodation	4,713,407	4,184,882
Depreciation expense of right-of-use assets – Motor vehicles	2,306,647	2,185,829
	7,925,918	6,875,766
Finance cost on lease liabilities	1,701,065	953,125
Expense relating to short-term leases (included in cost of sales)	196,073	69,758
Expense relating to short-term leases (included in general and administrative expenses)	255,726	230,271
Total amount recognised in the profit or loss	10,078,782	8,128,920

The depreciation charge related to right-of-use assets for the year was allocated as follows:

	Note	2023	2022 (Restated Note 31)
Cost of sales	18	6,340,155	5,857,832
Selling and distribution expenses	19	85,701	64,882
General and administrative expenses	20	1,500,062	953,052
		7,925,918	6,875,766

The Group had total cash outflows for leases of Saudi Riyals 11.4 million (2022: Saudi Riyals 7.9 million). The Group also had non-cash additions to right-of-use assets and lease liabilities of Saudi Riyals 43.9 million (2022: Saudi Riyals 6.8 million).

Payments associated with short-term leases of equipment and vehicles are recognised on a straight-line basis as an expense in the consolidated statement of profit or loss and other comprehensive income. Short-term leases are leases with a lease term of 12 months or less without a renewal option.

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

7 Inventories

	Note	December 31, 2023	December 31, 2022
Raw materials		129,382,140	193,063,447
Spare parts		55,857,559	52,175,795
Work in progress		1,060,149	3,056,175
Finished goods		4,443,301	4,373,787
Goods in transit		23,232,672	31,674,280
		213,975,821	284,343,484
Less: allowance for slow-moving inventories	7.1	(43,791,064)	(43,791,064)
		170,184,757	240,552,420

7.1 Movement in the allowance for obsolescence of inventories is as follows:

	December 31, 2023	December 31, 2022
Opening balance	43,791,064	43,791,064
Reversal	-	-
Closing balance	43,791,064	43,791,064

The cost of inventories charged as an expense during the year was Saudi Riyals 789.1 million (2022: Saudi Riyals 1 billion).

8 Trade receivables

	Note	December 31, 2023	December 31, 2022
Trade receivables – third parties		218,519,339	198,053,986
Due from related parties	23.2	9,008,745	10,253,642
		227,528,084	208,307,628
Less: allowance for impairment of trade receivables		(10,200,889)	(9,450,889)
		217,327,195	198,856,739
Trade receivable at fair value*		5,678,236	11,849,126
		223,005,431	210,705,865

*This represents trade receivables which are subject to factoring arrangement with commercial banks but are not factored at the year end. The trade receivables portfolio subject to factoring is initially classified at fair value through profit or loss.

Due to the short-term nature of current receivables, their carrying amount is considered to be the same as their fair value.

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

	December 31, 2023	December 31, 2022
Opening balance	9,450,889	8,000,889
Provision for the year	750,000	1,450,000
Closing balance	10,200,889	9,450,889

The Group had top 30 customer balances that accounted for approximately 35% (2022: 59%) of total outstanding trade receivables. Information about credit risk is disclosed in Note 28.

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

9 Advances, prepayments and other receivables

	December 31, 2023	December 31, 2022 (Restated Note 31)
Advances to suppliers	7,983,282	11,385,608
Prepayments	4,547,342	5,003,985
Employee loans	4,642,014	4,462,570
Margin on letters of guarantee	654,410	187,625
Other receivables	5,497,234	5,571,399
	23,324,282	26,611,187

10 Cash and cash equivalents

	December 31, 2023	December 31, 2022
Cash at banks	30,396,127	9,721,393
Cash in hand	190,070	354,125
	30,586,197	10,075,518

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 the fair value.

11 Share capital

At December 31, 2023 and December 31, 2022, the Parent Company's 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, 2023	December 31, 2022
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	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

12 Statutory reserve

In accordance with the Regulations for Companies previously applicable in the Kingdom of Saudi Arabia, the Parent Company was required to transfer 10% of the profit for the year to a statutory reserve until it equals to 30% of its share capital. As per the revised Regulations for Companies and the Parent Company's By-laws, maintaining a statutory reserve is no longer required.

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

13 Short-term borrowings

The Group has obtained short-term loans from commercial banks aggregating to Saudi Riyals 30 million (2022: Saudi Riyals 235 million). These loans are denominated in Saudi Riyals and bear financial charges based on prevailing market rate which is based on Saudi Interbank Offer Rate (SAIBOR). The unused funded balance of these facilities as at December 31, 2023 amounted to Saudi Riyals 240 million (2022: Saudi Riyals 95.3 million). These facilities are collateralised by demand promissory notes from the shareholders of the parent company.

Group management assessed that the fair value of the borrowings is approximately equal to their carrying amounts due to the short-term maturities of three months to six months and interest payable on those borrowings being at current market rates. The finance costs recognised as expense on the above borrowings have been disclosed in Note 22.

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 jurisdictions that the group companies operate in (KSA and UAE). The 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 the present value of employee benefit obligations

	December 31, 2023	December 31, 2022
Opening balance	54,225,449	49,924,820
Acquisition of a subsidiary	5,236,562	8,220,326
Transfer	-	(9,028)
Current service cost	5,765,437	5,581,101
Interest cost	2,621,278	1,545,709
Benefits paid	(5,988,599)	(4,252,813)
Re-measurement loss/(gain)	2,012,725	(6,784,666)
Translation adjustment	(42,830)	-
Closing balance	<u>63,830,022</u>	<u>54,225,449</u>

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

	December 31, 2023	December 31, 2022
<u>Included in profit or loss</u>		
Current service cost	5,765,437	5,581,101
Interest cost	2,621,278	1,545,709
<u>Included in other comprehensive income</u>		
Financial assumptions	320,283	(6,549,698)
Experience adjustment	(766,401)	(4,896)
Demographic assumptions	2,458,843	(230,072)
	<u>2,012,725</u>	<u>(6,784,666)</u>
	<u>10,399,440</u>	<u>342,144</u>

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

14 Employee benefit obligations (continued)**14.3 Key actuarial assumptions**

	December 31, 2023	December 31, 2022
Discount rate	4.60%	4.75%
Future salary growth	4.00%	4.00%
Withdrawal rates	Moderate	Moderate

14.4 Sensitivity analysis

The quantitative sensitivity analysis for the principal assumptions is as follows:

	Change in assumption		Impact on employee benefit obligations			
			Increase in assumption		Decrease in assumption	
	2023	2022	2023	2022	2023	2022
Discount rate	0.5%	0.5%	(1,807,734)	(762,320)	2,090,814	4,353,763
Salary growth rate	0.5%	0.5%	1,642,914	3,941,570	(1,401,141)	(1,136,547)

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 (2022: 7.0 years).

14.5 Expected maturity profile

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

	December 31, 2023	December 31, 2022
Up to 1 year	6,486,989	7,303,137
2 – 5 years	36,678,177	27,051,222
Over 5 years	36,199,267	32,002,717
	79,364,433	66,357,076

15 Accrued and other liabilities

	December 31, 2023	December 31, 2022
Accrued expenses	46,234,973	30,843,552
Payable for acquisition of a subsidiary (Note 2.2)	40,454,001	-
Advances from customers	13,234,840	9,333,511
Refund liabilities	5,459,517	4,850,888
VAT payable	4,538,395	8,747,403
Other	4,915,521	18,260,277
	114,837,247	72,035,631

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

15 Accrued and other liabilities (continued)

Accrued expenses include bonus expense amounting to Saudi Riyals 11 million (2022: Saudi Riyals 6.4 million), accruals for vacation pay amounting to Saudi Riyals 8 million (2022: Saudi Riyals 8.1 million), accrued custom duty of Saudi Riyals 6.2 million (2022: Saudi Riyals 1.7 million), accrued professional fee amounting to Saudi Riyals 4.7 million (2022: Saudi Riyals 3.3 million) and directors' remuneration amounting to Saudi Riyals 1.2 million (2022: Saudi Riyals 1 million).

16 Zakat and income tax matters**16.1 Components of the zakat base**

The Parent Company and the subsidiaries file 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.

16.2 Provision for zakat and income tax

	Zakat	Income tax	Total
January 1, 2022	1,463,520	-	1,463,520
Provisions for the year	107,618	-	107,618
Adjustment related to prior year	2,259,111	4,298,590	6,557,701
Payments	(371,279)	-	(371,279)
Offset against zakat and tax advances (Note 9)	(1,182,719)	(86,057)	(1,268,776)
December 31, 2022	2,276,251	4,212,533	6,488,784
Provisions for the year	3,833,795	10,408,439	14,242,234
Payments	(2,232,326)	(7,135,446)	(9,367,772)
December 31, 2023	3,877,720	7,485,526	11,363,246

16.3 Deferred tax assets

The balance comprises temporary differences attributable to:

	December 31, 2023	December 31, 2022 (Restated Note 31)
Property, plant and equipment	2,423,846	(618,091)
Goodwill	-	(788,807)
Allowance for slow-moving inventories	2,627,464	2,627,464
Allowance for impairment of trade receivables	612,053	567,053
Employee benefit obligations	3,513,543	3,253,525
Net deferred tax assets	9,176,906	5,041,144

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

16 Zakat and income tax matters (continued)**16.3 Deferred tax assets** (continued)

	December 31, 2023	December 31, 2022 (Restated Note 31)
January 1,	5,041,144	4,712,690
Deferred tax recognised in profit or loss	4,009,287	1,660,809
Deferred tax recognised in other comprehensive income	126,475	(407,080)
Deferred tax liability on fair value adjustment netted off against bargain purchase gain	-	(925,275)
December 31,	9,176,906	5,041,144

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 the 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.

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

During 2023, the GSTC scheduled a closed hearing session wherein TVDAC ruled partially in favor of the Parent Company thereby reducing the assessments to Saudi Riyals 1.1 million. The Parent Company being aggrieved filed a reconsideration request to GSTC which is awaited hearing.

The assessment for the years 2018 to 2022 have not yet been raised by ZATCA.

Integrated Packaging Industries Company (IPIC)

The Subsidiary has finalised its zakat assessments up to the period ended 30 September 2013. For the period up to 31 December 2021, the zakat return of the Company was filed by the previous shareholders as part of a consolidated return.

The assessments for the years 2014 to 2022 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.

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

16 Zakat and income tax matters (continued)**16.5 Income tax**

The major components of income tax in the consolidated statement of profit or loss and other comprehensive income can be broken down as follows for the year ended:

	Note	December 31, 2023	December 31, 2022 (Restated Note 31)
Current income tax	16.2	10,408,439	4,298,590
Deferred income tax	16.3	(4,009,287)	(1,660,809)
Total income tax charged to the statement of profit or loss		6,399,152	2,637,781
Deferred tax (credit)/charged to other comprehensive income	16.3	(126,475)	407,080
Deferred tax liability on fair value adjustment netted off against bargain purchase gain		-	925,275

17 Revenue

The Group derives revenue from the following streams:

	2023	2022 (Restated Note 31)
Revenue from:		
- Corrugated cartons and plates	1,177,433,624	1,295,084,318
- Duplex cartons	104,942,245	86,777,723
- Paper and packaging material	42,142,624	-
- Transportation services	37,278,258	32,811,167
	1,361,796,751	1,414,673,208

The revenue for the Group by geographical region is as follows:

	2023	2022
Kingdom of Saudi Arabia	1,303,645,709	1,393,770,877
Outside the Kingdom of Saudi Arabia	58,151,042	20,902,331
	1,361,796,751	1,414,673,208

Timing of revenue recognition

	2023	2022
Point in time	42,142,624	-
Over time revenue recognition	1,319,654,127	1,414,673,208
	1,361,796,751	1,414,673,208

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

17 Revenue (continued)

At December 31, 2023 and 2022, the Group has recognised the contract liabilities related to contract with customers:

	Note	December 31, 2023	December 31, 2022
Advances from customers	15	<u>13,234,840</u>	<u>9,333,511</u>

Advances from customers have increased by Saudi Riyal 3.9 million due to the negotiation of larger prepayments. Revenue recognised that was included in the advances from customers balance at the beginning of the year was Saudi Riyals 9.3 million (2022: Saudi Riyals 7.6 million).

18 Cost of sales

	Note	2023	2022 (Restated Note 31)
Material cost		789,102,405	1,017,850,127
Employee cost		102,621,834	91,333,165
Depreciation on property, plant and equipment	4	56,407,634	49,676,329
Utilities		39,060,315	22,515,129
Delivery cost		35,844,479	31,549,199
Depreciation on right-of-use assets	6	6,340,155	5,857,832
Insurance		3,667,342	2,164,930
Others		44,414,761	40,014,601
		<u>1,077,458,925</u>	<u>1,260,961,312</u>

19 Selling and distribution expenses

	Note	2023	2022 (Restated Note 31)
Employee cost		17,719,351	16,695,884
Traveling and conveyance		2,578,343	744,158
Delivery cost		762,695	-
Sales commission		600,000	600,000
Insurance		214,178	204,839
Depreciation on property, plant and equipment	4	194,287	553,216
Depreciation on right-of-use assets	6	85,701	64,882
Others		1,205,077	394,966
		<u>23,359,632</u>	<u>19,257,945</u>

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

20 General and administrative expenses

	Note	2023	2022 (Restated Note 31)
Employee cost		48,522,781	36,153,695
Staff relations		7,285,254	6,763,521
License and software maintenance		6,717,984	4,550,779
Depreciation on property, plant and equipment	4	5,794,843	3,606,391
Professional fees		3,834,122	4,596,314
Board of Directors' remuneration	23	2,200,000	1,200,000
Depreciation on right-of-use assets	6	1,500,062	953,052
Repairs and maintenance		1,445,090	2,585,814
Communications		1,386,449	1,308,755
Insurance		418,269	409,378
Amortisation of intangible asset		359,412	2,030,501
Others		6,262,461	3,923,611
		85,726,727	68,081,811

20.1 Auditors' remuneration for the statutory audit of the Group's consolidated financial statements and the financial statements of its subsidiaries for the year ended 31 December 2023 amounts to Saudi Riyals 0.9 million (2022: Saudi Riyals 0.4 million).

21 Other income – net

	2023	2022 (Restated Note 31)
Sale of scrap items	1,051,639	-
Gain/(loss) on disposal of property, plant and equipment	941,160	(11,007)
Exchange gains	436,038	-
Miscellaneous	580,793	199,935
	3,009,630	188,928

22 Finance costs

	Note	2023	2022 (Restated Note 31)
Finance cost on short term borrowings	13	5,512,708	1,809,806
Finance cost on lease liabilities	6	1,701,065	953,125
Others		522,280	801,737
		7,736,053	3,564,668

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

23 Related party transactions and balances

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

23.1 Related party transactions

Significant transactions with related parties in the ordinary course of business included in the consolidated financial statements are summarised below:

Related party	Relationship	Nature of transaction	2023	2022
National Food Industries Company	Other related party	Sale of goods	11,243,977	12,419,233
		Accommodation expenses	2,379,095	2,031,007
National Biscuits and Confectionary Company	Other related party	Sale of goods	28,801,195	29,661,468
Zamil Air Conditioner and Home Appliances	Other related party	Accommodation expenses	1,788,926	1,426,524
Zamil Plastic Industries Company	Other related party	Sale of goods	2,115,465	2,700,606
Zamil Polipa Packaging Company	Other related party	Sale of goods	887,314	847,728
Zamil Central and Air Conditioner Company	Other related party	Sale of goods	1,392,592	1,226,440
Zamil Food Industries Limited	Other related party	Sale of goods	136,241	24,642
Techno Val Information System	Other related party	Sale of goods	2,668,255	2,355,229
	Other related party	IT services	2,053,057	2,365,458

23.2 Related party balances

Significant year-end balances arising from transactions with related parties are as follows:

(i) Due from related parties

	December 31, 2023	December 31, 2022
National Biscuits and Confectionary Company	5,448,677	6,912,037
National Food Industries Company	1,853,573	2,341,134
Zamil Air Conditioner and Home Appliances	943,437	520,128
Zamil Polipa Packaging Company	476,290	245,469
Zamil Plastic Industries Company	241,521	79,140
Zamil Central and Air Conditioner Company	45,247	-
Zamil Food Industries Limited	-	155,734
	9,008,745	10,253,642

(ii) Due to related parties

	December 31, 2023	December 31, 2022
Technoal Information Systems Limited	-	816,743

Sales and purchases (including services) carried out to/from related parties during the year are based on the price lists in force and terms that would be available to third parties in the normal course of business.

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

23 Related party transactions and balances (continued)**23.2 Related party balances (continued)**

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. The balances are payable/receivable within normal commercial terms i.e, 30 – 60 days.

23.3 Key management personnel compensation

Key management personnel comprise chief executive officer, chief financial officer, vice presidents and certain head of departments. Compensation of the Group's key management personnel includes salaries and contributions to employee benefit obligations.

	December 31, 2023	December 31, 2022
Short-term employee benefits (salaries and other allowances)	8,079,894	6,366,404
Post-employment benefit (end-of-service benefit)	1,036,234	516,354
Board of Directors' remuneration	2,200,000	1,200,000

24 Commitments

The capital expenditure contracted by the Group but not incurred until December 31, 2023 was Saudi Riyals 14.7 million (2022: Saudi Riyals 12.8 million).

25 Bank guarantees

At December 31, 2023, the Group has outstanding bank guarantees amounting to Saudi Riyals 0.65 million (2022: Saudi Riyals 0.86 million) issued in the normal course of business.

26 Segment information

An operating segment is a component of an entity:

- (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- (c) for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. For management purposes, the Group is organised into business units based on their products and has the following reportable segments:

Corrugated

Corrugated segment which manufactures and sells corrugated boxes, digital printing products, retail boxes etc.

Duplex

Duplex segment involves manufacturing of paper pulp from fibers, drawing paper, printing, paper, corrugated cardboard, carton, boxes, folded or single bags of corrugated paper board, paper filing boxes and paper products for household purposes including dishes, cups and allied.

Paper and packaging material

Paper segment involves manufacturing of packaging paper, tissue paper and converted products including hand towels, kitchen rolls and napkins etc.

The Group's CODM (the Group's board of directors) monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit/(loss) before zakat and tax for each segment.

UNITED CARTON INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

26 Segment information (continued)

The Group's consolidated financial information by business segments, were as follows:

	Corrugated	Duplex	Paper and packaging material	Total
December 31, 2023				
Property, plant and equipment	269,496,671	50,414,708	58,894,364	378,805,743
Right of use assets	28,125,845	1,296,243	18,610,100	48,032,188
Trade receivables	176,831,102	19,485,432	36,889,786	233,206,320
Provision for impairment of trade receivables	(10,100,889)	(100,000)	-	(10,200,889)
Trade receivables – net	166,730,213	19,385,432	36,889,786	223,005,431
December 31, 2023				
Total assets	706,468,500	101,004,057	118,281,900	925,754,457
Total liabilities	344,630,640	60,777,439	38,276,498	443,684,577

	Corrugated	Duplex	Total
December 31, 2022 *			
Property, plant and equipment	288,350,477	59,332,461	347,682,938
Right of use assets	11,486,336	967,812	12,454,148
Trade receivables	200,214,345	19,942,409	220,156,754
Provision for impairment of trade receivables	(9,350,889)	(100,000)	(9,450,889)
Trade receivables – net	190,863,456	19,842,409	210,705,865

December 31, 2022			
Total assets	771,200,153	120,496,980	891,697,133
Total liabilities	382,679,830	81,665,608	464,345,438

*The segment report information for the comparative period was computed based on the restated information (refer Note 31 for the restatement disclosure)

	Corrugated	Duplex	Paper and packaging material	Total
For the year ended December 31, 2023				
Segment revenue	1,214,686,051	108,583,648	42,172,232	1,365,441,931
Inter-segment revenue	(2,153,328)	(1,462,244)	(29,608)	(3,645,180)
Revenue from external customers	1,212,532,723	107,121,404	42,142,624	1,361,796,751
Gross profit	303,245,553	(21,249,770)	2,342,043	284,337,826
Depreciation and amortization	(54,758,434)	(13,228,467)	(2,704,349)	(70,691,250)
Finance costs	(3,990,382)	(3,147,583)	(598,088)	(7,736,053)
Profit/ (loss) before zakat and tax	168,932,983	(465,470)	(1,536,802)	166,930,711
Additions to property, plant and equipment	28,788,822	4,310,786	1,738,399	34,838,007

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

26 Segment information (continued)

	Corrugated	Duplex	Total
For the year ended December 31, 2022 - (Note 31)			
Segment revenue	1,331,144,313	88,036,402	1,419,180,715
Inter-segment revenue	(4,507,507)	-	(4,507,507)
Revenue from external customers	1,326,636,806	88,036,402	1,414,673,208
Gross profit	138,813,782	14,898,114	153,711,896
Depreciation and amortisation	(53,233,316)	(9,508,887)	(62,742,203)
Finance costs	(2,997,718)	(566,950)	(3,564,668)
Profit before zakat and tax	62,466,523	11,948,809	74,415,332
Additions to property, plant and equipment	15,418,056	145,622	15,563,678

The Group's operations are conducted principally in Saudi Arabia and United Arab Emirates. Selected financial information as at and for the year ended December 31 by geographic area were as follows:

	Kingdom of Saudi Arabia	United Arab Emirates	Others	Total
2023				
Revenue	1,304,623,576	43,080,048	14,093,127	1,361,796,751
Non-current assets	419,966,240	58,687,550	-	478,653,790
2022				
Revenue	1,391,342,066	757,803	22,573,339	1,414,673,208
Non-current assets	403,752,143	-		403,752,143

27 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Parent Company, by the weighted average number of ordinary shares outstanding during the financial year. As the Parent Company does not have any diluting potential shares, the diluted earnings per share is the same as the basic earnings per share.

The basic and diluted earnings per share is computed as follows:

	December 31, 2023	December 31, 2022 (Restated Note 31)
Profit for the year	156,697,764	69,518,440
Weighted average number of ordinary shares	20,000,000	20,000,000
Basic and diluted earnings per share	7.83	3.48

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

28 Financial instruments**28.1 Financial assets****28.1.1 Financial assets at amortised cost**

	Note	December 31, 2023	December 31, 2022
Trade receivables	8	217,327,195	198,856,739
Cash and cash equivalents	10	30,586,197	10,075,518
Other receivables	9	5,497,234	5,571,399
Employee loans	9	4,642,014	4,462,570
Margin on letters of guarantee	9	654,410	187,625
		258,707,050	219,153,851

28.1.2 Financial assets at fair value through profit or loss

	Note	December 31, 2023	December 31, 2022
Trade receivables	8	5,678,236	11,849,126

28.2 Financial liabilities

	Note	December 31, 2023	December 31, 2022
Financial liabilities at amortised cost			
Short term borrowings	13	30,168,532	139,718,094
Trade payables		173,355,541	176,080,041
Accrued expenses	15	46,234,973	30,843,552
Payable for the acquisition of a subsidiary		40,454,001	-
Refund liabilities		5,459,517	4,850,888
Others	15	4,915,521	18,260,277
Total financial liabilities		300,588,085	369,752,852

The carrying amount of financial assets and financial liabilities approximates their fair value due to their short-term nature. For credit risk exposure refer to Note 28.3. In prior years, certain non-financial liabilities and lease liabilities were classified as financial liabilities. The corresponding period has now been correctly presented to exclude non-financial liabilities and lease liabilities from the above table.

28.3 Financial risk management

The board of directors 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.

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

28 Financial instruments (continued)**28.3 Financial risk management (continued)**

The board 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 interest rate risk and price risk)

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 categorises a receivable for write-off when a debtor fails to make contractual payments greater than 365 days past due. Where receivables have been categorised as for write 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 profit or loss.

i. Impairment of financial assets

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

	December 31, 2023	December 31, 2022
Trade receivables	223,005,431	210,705,865
Cash at bank	30,396,127	9,721,393
Other receivables	5,497,234	5,571,399
Employee loans	4,642,014	4,462,570
Margin on letters of guarantee	654,410	187,625
	264,195,216	230,648,852

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

28 Financial instruments (continued)**28.3 Financial risk management (continued)****Cash at bank**

For banks, only independently rated parties with sound credit ratings are accepted. The stated rating is as per the global bank ratings by Moody's Investors Service. Management does not expect any losses from non-performance by these counterparties. The identified risk of default arising on these balances is considered not to be material.

The credit rating of banks in which the Company holds cash are as follows:

	2023	2022
A1	16,763,202	9,721,393
A3	21,492	-
Aa3	13,611,433	-
	30,396,127	9,721,393

Trade Receivables

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 gross domestic product as the most relevant macro-economic factor 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.

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

	2023	2022
Impairment of trade receivables	750,000	1,450,000

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

28 Financial instruments (continued)**28.3 Financial risk management (continued)**

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

Ageing	Gross carrying amount	Expected credit loss rate (%)	Loss allowance
Not due	173,266,158	0.71%	1,226,894
1 – 90 days	43,050,584	2.08%	895,452
91 – 180 days	3,251,721	27.83%	904,954
181 – 270 days	1,739,473	55.01%	956,884
271 – 365 days	906,132	99.62%	902,689
Greater than 365 days	5,314,016	100%	5,314,016
December 31, 2023	227,528,084		10,200,889

The loss allowance as at December 31, 2022 was determined as follows:

Ageing	Gross carrying amount	Expected credit loss rate (%)	Loss allowance
Not due	159,213,085	0.71%	1,123,048
1 – 90 days	38,886,942	2.00%	778,980
91 – 180 days	1,692,063	21.44%	362,816
181 – 270 days	2,828,078	53.96%	1,525,899
271 – 365 days	2,205,816	98.76%	2,178,502
Greater than 365 days	3,481,644	100%	3,481,644
December 31, 2022	208,307,628		9,450,889

b) Liquidity risk

	December 31, 2023					Total
	Less than 6 months	6 - 12 months	Between 1 – 2 years	Between 2 – 5 years	Above 5 years	
Short term borrowings	30,335,263	-	-	-	-	30,335,263
Lease liabilities	4,986,422	4,582,012	8,176,382	20,870,062	30,155,019	68,769,897
Trade payables	173,355,541	-	-	-	-	173,355,541
Accrued and other liabilities	56,610,011	40,454,001	-	-	-	97,064,012
	265,287,237	45,036,013	8,176,382	20,870,062	30,155,019	369,524,713

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

28 Financial instruments (continued)**b) Liquidity risk (continued)**

	December 31, 2022					Total
	Less than 6 months	6 - 12 months	Between 1 - 2 years	Between 2 - 5 years	Above 5 years	
Short term borrowings	140,490,269	-	-	-	-	140,490,269
Lease liabilities	4,890,225	1,957,033	3,010,922	3,862,271	4,126,274	17,846,725
Trade payables	176,080,041	-	-	-	-	176,080,041
Accrued and other liabilities	53,954,717	-	-	-	-	53,954,717
	375,415,252	1,957,033	3,010,922	3,862,271	4,126,274	388,371,752

Refer to Note 13 for unused borrowing facilities and 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, interest 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 a currency that is not the Group's functional currency. The Group's transactions are principally in Saudi Riyals and United States Dollars. The Group has operations in UAE where AED is pegged with United States Dollars. Management monitors the fluctuations in currency exchange rates and believes that the currency risk is not significant.

ii) Interest rate risk

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

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

	December 31, 2023	December 31, 2022
Financial liabilities, principally borrowings	30,168,582	139,718,094

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

28 Financial instruments (continued)**c) Market risk (continued)**

Profit or loss is sensitive to higher/lower interest expense on borrowings as a result of changes in interest rates. Based on average borrowings outstanding throughout the year, the sensitivity impact to a reasonable possible change in interest rate on the Group's profit before zakat has been disclosed as follows:

	2023	2022
Interest rate-increases by 100 basis points	(849,433)	(1,048,590)
Interest rate-decreases by 100 basis points	849,433	1,048,590

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 interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or its 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 Group's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings, lease liabilities as shown in the statement of financial position, less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

During 2023, the Group's strategy, which remained unchanged from previous year, was to maintain total gearing ratio less than 100%.

	December 31, 2023	December 31, 2022 (Restated Note 31)
Borrowings	30,168,532	139,718,094
Lease liabilities	50,129,989	15,797,439
Less: cash and cash equivalents	(30,586,197)	(10,075,518)
Net debt (A)	49,712,324	145,440,015
Shareholders' equity (B)	482,069,880	427,351,695
Total capital (A+B)	531,782,204	572,791,710
Gearing ratio (A / (A+B))	9.35%	25.39%

29 Dividends

During the year the shareholders approved and paid a notional dividend of Saudi Riyals 5 (2022: Saudi Riyals 1.25) per share amounting to Saudi Riyals 100 million (2022: Saudi Riyals 25 million). An amount of Saudi Riyals 0.45 million relating to the dividend due to a non-Saudi shareholder was deducted resulting in a net dividend of Saudi Riyals 99.55 million arising from the fact that the shareholders have agreed to bear their respective zakat and income tax allocations. To ensure the Saudi shareholders bear the zakat and the foreign shareholders bear the income tax expense per the agreement between the shareholders, the dividend per share paid to each shareholder was slightly different.

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

30 Cash flow information**(a) Net debt**

	2023	2022 (Restated Note 31)
Cash and cash equivalents	30,586,197	10,075,518
Short term borrowings	(30,168,532)	(139,718,094)
Lease liabilities	(50,129,989)	(15,797,439)
Net debt	(49,712,324)	(145,440,015)

(b) Net debt reconciliation

	Cash and cash equivalents	Short term borrowings	Leases	Total
1 January 2022	12,801,519	(70,000,000)	(15,809,339)	(73,007,820)
Movement in cash and cash equivalents	(2,726,001)	-	-	(2,726,001)
Financing cash flows	-	(69,718,094)	6,940,023	(62,778,071)
New leases	-	-	(6,855,525)	(6,855,525)
Interest expense	-	(1,809,806)	(953,125)	(2,762,931)
Interest payment (presented as operating cashflows)	-	1,809,806	880,527	2,690,333
December 31, 2022 - Restated	10,075,518	(139,718,094)	(15,797,439)	(145,440,015)
Movement in cash and cash equivalents	20,618,502	-	-	20,618,502
Financing cash flows	-	109,549,562	9,704,484	119,254,046
New leases	-	-	(43,938,764)	(43,938,764)
Foreign exchange adjustment	(107,823)	-	-	(107,823)
Interest expense	-	(5,512,708)	(1,701,065)	(7,213,773)
Interest payment (presented as operating cash flows)	-	5,512,708	1,602,795	7,115,503
December 31, 2023	30,586,197	(30,168,532)	(50,129,989)	(49,712,324)

31 Restatement of corresponding amounts**31.1 Measurement period adjustment**

During 2023, the Group completed the Purchase Price Allocation for the subsidiary acquired in 2022, Integrated Packaging Industries Company. The Group has finalised the fair value adjustments and adjusted the carrying amounts retrospectively as at the date of acquisition as required by IFRS 3, i.e, March 30, 2022.

The above transaction resulted in restatement of corresponding amounts in the consolidated financial statements to retrospectively reflect the impact of measurement period adjustment as follows. (Refer to Note 4).

(i) Property, plant and equipment increased by Saudi Riyals 13.3 million as a result of finalising the fair value exercise but by 31 December 2022 this has reduced to an uplift of Saudi Riyals 10.3 million due to associated increased depreciation described in (ii) below.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

31 Restatement of comparative information (continued)

(ii) Cost of sales, selling and distribution expenses and general and administrative expenses have been increased by incremental depreciation charges of Saudi Riyals 2.2 million, Saudi Riyals 0.3 million and Saudi Riyals 0.6 million respectively.

(iii) Bargain purchase gain recognised in profit or loss was adjusted upwards by Saudi Riyals 12.4 million after adjusting for deferred taxes in the sum of Saudi Riyals 0.9 million on the property, plant and equipment uplift described in (i) above.

31.2 Restatement of prior period errors

Certain prior period balances and transactions have been reassessed to present the appropriate nature of the transactions and, accordingly, the prior period corresponding amounts have been restated, as outlined below. These reclassifications had no significant impact on the previously reported net income and retained earnings of the corresponding period presented:

- (i) The Group did not recognise the right-of-use assets and the related lease liabilities on leased buildings related to its subsidiary, Integrated Packaging Industries Company in the prior year (from the date of acquisition) as per the requirements of IFRS 16 – *Leases*. The management has corrected the above error by restating the prior year financial statements recognising the right-of-use assets and related lease liability.
- (ii) In prior years, the Group did not consider transportation costs associated with the delivery of goods to customers as separate performance obligations, and instead recognized the amount in selling and distribution expenses. Under the terms of the contracts, and considering the requirements of IFRS 15 ‘Revenue from contracts with customers’, the Group has two performance obligations i.e, sale of goods and rendering of services associated with delivery of goods. Accordingly, the reported amount of revenues in the prior year has been split between the two performance obligations and disclosed separately. There was no impact on the total amount of revenue recognised in the year. The costs associated with the transportation performance obligation, amounting to Saudi Riyals 31.6 million, have been reclassified to cost of sales.
- (iii) In 2022, the Group reported losses arising on sale of financial assets of Saudi riyals 1.9 million partially as part of finance cost (Saudi Riyals 1.5 million) and partially aggregated with other income (Saudi Riyals 0.4 million). However, the Group has now reassessed these receivables and concluded that the intention to sell them means that they are subsequently measured at fair value through profit or loss. Consequently, the Group has represented these fair value losses separately as a single line on the face of the statement of profit or loss and other comprehensive income.
- (iv) During 2023, the group discovered that a 2022 expense incurred as cost of production amounting to Saudi Riyals 1.2 million was erroneously allocated to general and administrative expenses. This amount has been reclassified from general and administrative expenses to cost of sales.
- (v) In 2012, one of the production facilities was partially impaired. Subsequently, the Group continued to charge the same amount of depreciation, notwithstanding the impairment loss already recorded, but to offset this excess depreciation, recorded an impairment reversal within other income. This had no impact on profit for any of the previous years but did represent an inappropriate gross up across different lines of the statement of profit or loss and other comprehensive income. In the prior year Saudi Riyals 1.3 million was reported as an impairment reversal within other income. This has now been corrected to present the correct amount of depreciation expenses related to the partially impaired assets in the cost of sales (Note 18).

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

31 Restatement of comparative information (continued)

31.3 Change in presentation policy:

The amount of provisional bargain purchase gain of Saudi Riyals 2.4 million reported in 2022 arising on the acquisition of Integrated Packaging Industries Company, was previously presented in 'Other income' and has now been presented separately on the face of consolidated statement of profit or loss and other comprehensive income in light of the increased amount of the gain following completion of the IFRS 3 fair value exercise. Also refer to Note 31.1 above for the measurement period adjustment that resulted in the additional bargain purchase gain of Saudi Riyals 12.4 million.

The above errors, change in accounting policy and measurement period adjustments have been corrected by restating each of the affected financial statement line items for the prior periods. The following tables summarise the impact on the financial statement line items. None of the adjustments affected the statement of financial position at 1 January 2022. None of the above adjustments materially affected the classification of cash flows between operating activities, investing activities and financing activities.

UNITED CARTON INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2023

(All amounts in Saudi Riyals unless otherwise stated)

31 Restatement of comparative information (continued)

The following table summarises the impact on the Group's financial statements:

	Note	As previously reported	Measurement period adjustment	Restatement	Reclassification	As restated
<i>Effect on the consolidated statement of financial position at December 31, 2022</i>						
Property, plant and equipment	31.1 (i)	337,381,414	10,301,524	-	-	347,682,938
Right-of-use assets	31.2 (i)	11,486,336	-	967,812	-	12,454,148
Deferred tax	31.1 (iii)	5,966,419	(925,275)	-	-	5,041,144
Advances, prepayments and other receivables	31.2 (i)	26,733,739	-	(122,552)	-	26,611,187
Lease liabilities	31.2 (i)	(14,757,028)	-	(1,040,411)	-	(15,797,439)
<i>Effect on the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2022</i>						
Cost of sales	31.1 (ii), 31.2 (i), 31.2 (ii), 31.2 (iv), 31.2 (v)	(1,227,283,899)	(2,164,929)	(31,512,484)	-	(1,260,961,312)
Selling and distribution expenses	31.1 (ii), 31.2 (ii)	(50,539,920)	(267,224)	31,549,199	-	(19,257,945)
General and administrative expenses	31.1 (ii), 31.2 (iv)	(68,655,800)	(590,381)	1,164,370	-	(68,081,811)
Fair value losses on financial assets	31.2 (iii)	-	-	(1,930,030)	-	(1,930,030)
Bargain purchase gain on acquisition of a subsidiary	31.1 (iii), 31.3	-	12,398,783	-	2,400,179	14,798,962
Finance costs	31.2 (i), 31.2 (iii) 31.2 (iii), 31.2 (v),	(5,015,485)	-	1,450,817	-	(3,564,668)
Other income	31.3	3,506,130	-	(917,023)	(2,400,179)	188,928

UNITED CARTON INDUSTRIES COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2023**

(All amounts in Saudi Riyals unless otherwise stated)

32 Subsequent event

On February 15, 2024, one of the production halls at Integrated Packaging Industries Company, a wholly owned subsidiary contributing 8% to the Group's revenue and 3% to the net profit for the year ended December 31, 2023, was partially damaged by fire. There were no injuries or loss of human life and the safety measures in place contained damage and fire. Surveyors are in the process of assessing the extent of the loss, following which the subsidiary will file a claim for reimbursement with the insurance company. Operations in other parts of the plant have resumed in ten days in addition to outsourcing of services relating to the affected area. The estimated carrying amount of assets affected by the fire when it happened amounts to Saudi Riyals 3.1 million comprising of Saudi Riyals 2.3 million in inventories and Saudi Riyals 0.8 million in property, plant and equipment. The Group will account for any losses in subsequent reporting periods as the fire is a non-adjusting subsequent event.