

**NATIONAL METAL MANUFACTURING AND
CASTING COMPANY (MAADANIYAH)**
(A SAUDI JOINT STOCK COMPANY)

**FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT FOR THE YEAR ENDED
DECEMBER 31, 2020**

NATIONAL METAL MANUFACTURING AND CASTING COMPANY (MAADANIYAH)
(A SAUDI JOINT STOCK COMPANY)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of
National Metal Manufacturing and Casting Company ("MAADANIYAH")
Joint Stock Company
Jubail Industrial City - Kingdom of Saudi Arabia.

Opinion

We have audited the financial statements of National Metal Manufacturing and Casting Company ("MAADANIYAH") (a Saudi Joint Stock Company) ("the Company") which comprise the statement of financial position as at December 31, 2020 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes from (1) to (37) to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters include:

Impairment of non-current assets	
Refer to note 3 for the accounting policy and note 5 for the related disclosure.	
Key audit matter	How the matter was addressed in our audit
Due to the continuous operating losses of relevant Cash Generating Units (CGUs) of the Company, the management has carried out an impairment exercise in line with the requirements of "IAS 36 – Impairment of assets", in which the recoverable amount was determined based on value-in-use derived from discounted cash flow model. The management determined that no impairment of non-current assets was required to be recorded during the year as the recoverable amount was higher than the carrying value of respective CGUs as at December 31, 2020.	Our audit procedures to assess impairment of non-current assets included the following:
We considered the impairment of non-current assets as a key audit matter due to the significant judgments and estimates involved in the impairment assessment process.	<ul style="list-style-type: none"> - Assessed the methodology used by management to determine recoverable amount based on value in use of the relevant CGUs and compared it to that required by IAS 36; - Checked the arithmetical accuracy of the assessment; - Tested key assumptions and estimates used in the management's value in use calculation by assessing the reasonableness of these assumptions in respect of estimated future cash flows as approved by the Board of directors, growth and discount rates; - Assessed the accuracy and completeness of the information produced by management, which was used for the basis of the impairment assessment; - Assessed the adequacy of the Company's disclosures in the financial statements.

Valuation of inventories	
Refer to note 3 for the accounting policy and note 10 for related disclosures.	
Key audit matter	How the matter was addressed in our audit
<p>The inventory as at December 31, 2020 amounted to SR 105,574,774 constitute around 25% of the total assets of the Company.</p> <p>Inventories are stated at lower of cost or net realisable value. At each reporting date, management reviews the valuation of inventories and writes down the cost of inventories that are forecasted to be sold below cost.</p> <p>We considered this as a key audit matter due to the significant judgments and key assumptions applied by the management in determining the allowance for slow moving inventories and the level of inventories write down required based on the net realizable value assessment.</p>	<p>Our audit procedures to test / assess valuation of inventories included the following:</p> <ul style="list-style-type: none"> - Assessed the appropriateness of the Company's accounting policies for recognition and measurement of inventories in line with the requirements of relevant IFRS; - Assessed the design and implementation of the Company's relevant controls around recognition and measurement of inventories; - Tested the net realisable value of finished goods inventories on sample basis by comparing with their costs; - Obtained the aging of inventory as at the reporting date and assessed the adequacy of allowance/write offs for slow moving and obsolete inventory and - Assessed the adequacy of the disclosure in the Company's financial statements as per the requirements of relevant IFRS.

Other information

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

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

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

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

Responsibilities of management and Those Charged with Governance ("TCWG") for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and the Regulations of Companies requirements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged with Governance, in particular the Audit Committee, are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

For Dr. Mohamed Al-Amri & Co.



Gihad M. Al-Amri
Certified Public Accountant
Registration No. 362

March 30, 2021 G
Sha'ban 17, 1442 H



NATIONAL METAL MANUFACTURING AND CASTING COMPANY (MAADANIYAH)
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020
Expressed in Saudi Riyal

ASSETS

Non- current assets	Note	2020	2019
Property, plant and equipment	5	178,134,761	184,102,394
Right-of-use assets	6	3,961,242	4,712,150
Intangible assets	7	2,930,944	4,812,121
Investment property	8	2,034,156	2,235,308
Equity instruments designated at fair value through other comprehensive income (FVTOCI)	9	3,750,000	3,750,000
		190,811,103	199,611,973
Current assets			
Inventories	10	105,574,774	121,933,252
Trade receivables	11	76,213,204	103,968,424
Prepayments and other receivables	12	5,364,602	7,146,447
Cash and cash equivalents	13	36,592,319	19,696,036
		223,744,899	252,744,159
TOTAL ASSETS		414,556,002	452,356,132

EQUITY AND LIABILITIES

Equity

Share capital	14	281,120,890	281,120,890
Statutory reserve	15	27,173,232	27,173,232
(Accumulated losses)/ retained earnings		(40,156,992)	216,745
		268,137,130	308,510,867

Non-current liabilities

Lease liabilities	6	3,557,290	4,034,519
Long term loans	16	47,167,334	53,324,208
Employees benefits obligations	17	28,015,614	26,865,487
		78,740,238	84,224,214

Current liabilities

Trade and other payables	18	23,815,644	13,954,744
Lease liabilities – current portion	6	573,321	547,337
Long term loans - current portion	16	16,700,000	13,450,000
Short term loans	19	5,000,000	13,243,650
Accrued and other liabilities	20	16,409,669	12,875,320
Zakat provision	21	5,180,000	5,550,000
		67,678,634	59,621,051
TOTAL EQUITY AND LIABILITIES		414,556,002	452,356,132

The accompanying notes from 1 to 37 form an integral part of these financial statements.

Chairman

CEO

Finance Manager

NATIONAL METAL MANUFACTURING AND CASTING COMPANY (MAADANIYAH)
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020
Expressed in Saudi Riyal

	Note	2020	2019
Revenue	22	205,962,102	263,248,366
Cost of sales		(194,559,317)	(246,005,398)
Gross profit		11,402,785	17,242,968
Selling and distribution expenses	23	(12,774,788)	(13,291,691)
General and administrative expenses	24	(18,790,373)	(17,316,191)
Other expenses	25	(12,136,285)	(42,784,604)
Other income	26	796,715	1,441,963
Operating loss		(31,501,946)	(54,707,555)
Finance cost		(3,633,647)	(4,909,948)
Loss before zakat		(35,135,593)	(59,617,503)
Zakat	21	(5,678,991)	(5,491,486)
Net loss for the year		(40,814,584)	(65,108,989)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement gain on employees benefit obligations		440,847	853,299
Total comprehensive loss for the year		(40,373,737)	(64,255,690)
Loss per share	30		
- Basic		(1.45)	(2.32)
- Diluted		(1.45)	(2.32)

The accompanying notes from 1 to 37 form an integral part of these financial statements.

Chairman


CEO


Finance Manager


NATIONAL METAL MANUFACTURING AND CASTING COMPANY (MAADANIYAH)
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020
Expressed in Saudi Riyal

	Share capital	Statutory reserve	Retained earnings /(Accumulated losses)	Total equity
Balance at January 01, 2019	281,120,890	27,173,232	64,472,435	372,766,557
Net loss for the year	-	-	(65,108,989)	(65,108,989)
Other comprehensive income	-	-	853,299	853,299
Total comprehensive loss for the year	-	-	(64,255,690)	(64,255,690)
Balance at December 31, 2019	281,120,890	27,173,232	216,745	308,510,867
Net loss for the year	-	-	(40,814,584)	(40,814,584)
Other comprehensive income	-	-	440,847	440,847
Total comprehensive loss for the year	-	-	(40,373,737)	(40,373,737)
Balance at December 31, 2020	281,120,890	27,173,232	(40,156,992)	268,137,130

The accompanying notes from 1 to 37 form an integral part of these financial statements.

Chairman



CEO



Finance Manager



NATIONAL METAL MANUFACTURING AND CASTING COMPANY (MAADANIYAH)
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
Expressed in Saudi Riyal

	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss before zakat		(35,135,593)	(59,617,503)
Adjustments for non –cash items to reconcile loss before zakat to net cash flows			
Depreciation of property, plant and equipment	5	15,576,628	16,219,769
Depreciation of right-of-use assets	6	750,908	750,908
Depreciation of investment property	8	201,152	201,152
Amortization of intangible assets	7	1,881,177	1,839,814
Impairment of goodwill		-	40,085,081
Finance cost		3,633,647	4,909,948
Provision for slow moving inventories	10	6,969,147	2,440,865
Write down of inventories to net realizable value	10	2,431,633	-
Impairment of trade receivables	11	2,735,505	258,658
Loss / (gain) from disposal of property, plant and equipment		12,904	(37,680)
Provision for employees' end of service obligations	17	3,397,417	3,594,571
		2,454,525	10,645,583
Working capital changes			
Inventories		6,957,698	47,892,642
Trade receivables		25,019,715	18,299,895
Prepayments and other receivables		1,781,845	(125,324)
Trade and other payable		9,860,900	(53,574,273)
Accrued and other liabilities		3,218,461	(351,585)
Cash generated from operations		49,293,144	22,786,938
Zakat paid	21	(6,048,991)	(6,041,486)
Employees' end of service benefits paid	17	(1,806,443)	(1,173,921)
Net cash generated from operating activities		41,437,710	15,571,531
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	5	(9,729,710)	(5,914,196)
Proceeds from disposal of property, plant and equipment		107,811	66,950
Additions to intangible assets		-	(303,453)
Investment in shares		-	(3,750,000)
Net cash used in investing activities		(9,621,899)	(9,900,699)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of short term loans		(48,761,181)	(100,735,194)
Proceeds from short term loans		40,517,531	89,274,987
Repayment of long term loans		(10,800,000)	(11,200,000)
Proceeds from long term loans		7,893,126	3,972,400
Finance cost paid		(3,072,441)	(4,706,046)
Payment of lease liabilities	6	(696,563)	(792,063)
Dividend paid		-	(100,264)
Net cash used in financing activities		(14,919,528)	(24,286,180)
Net change in cash and cash equivalents		16,896,283	(18,615,348)
Cash and cash equivalents at January 1,		19,696,036	38,311,384
Cash and cash equivalents at December 31,	13	36,592,319	19,696,036

The accompanying notes from 1 to 37 form an integral part of these financial statements.

Chairman


CEO


Finance Manager


NATIONAL METAL MANUFACTURING AND CASTING COMPANY (MAADANIYAH)
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
Expressed in Saudi Riyal

1. ORGANIZATION AND ACTIVITIES

National Metal Manufacturing and Casting Company (MAADANIYAH) ("the Company") was incorporated pursuant to Council of Ministerial Resolution Number 253 dated 13 Rabi 'I, 1411-H corresponding to October 2, 1990G and registered as a Saudi Joint Stock Company under Commercial Registration Number 2055002251 dated 16 Jumada 'I, 1411-H corresponding to December 3, 1990 G issued in Al Jubail. The registered office of the Company is situated in Al-Jubail, Kingdom of Saudi Arabia.

The Company has the following branches:

Branch name	Commercial Registration Number	Date
Axles, Foundries and Spare Parts Factory	2050016156	29/5/1406-H
Wire Drawing and Related Products Factory (ASLAK)	2055013867	25/8/1432-H
Branch of National Metal Manufacturing and Casting Company (MAADANIYAH)	1010389002	25/11/1434-H
Gulf Baas Industries	2050116884	04/11/1439-H

The financial results of these branches are included in these financial statements.

The Company and its branches objectives are as follows:

- Manufacturing of drawn steel wire rod, pre-stressed concrete steel wire strand (PC strand), spring wire, mattress spring wire, strengthening wire strand for electrical power and high and low galvanized steel wire, fasteners, nails, bolts and welding wire.
- Manufacturing of metal castings of various types.
- Manufacturing of axles, various qualities of suspensions and spare parts for trucks, vehicles and equipment.
- Wholesale and retail trade in the Company's products, building materials, industrial materials, including the import and export.
- Ownership of land and property and constructing buildings thereon.
- Ownership of patents and benefiting from them to achieve industrial objectives inside and outside the Kingdom of Saudi Arabia.
- Commercial agencies and representation of local or foreign companies inside and outside the Kingdom of Saudi Arabia.
- Tenders and contracting business.
- Construction of industrial, service and commercial projects inside and outside the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

(b) Basis of measurement

These financial statements have been prepared on historical cost basis except for employees benefit obligations and investment in equity instruments designated at FVTOCI which are measured at present value using the Projected Unit Credit Method and at fair value, respectively.

(c) Functional and presentation currency

These financial statements are presented in Saudi Riyals, which is the Company's functional and presentation currency.

NATIONAL METAL MANUFACTURING AND CASTING COMPANY (MAADANIYAH)
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
Expressed in Saudi Riyal

2. BASIS OF PREPARATION (CONTINUED)

(d) Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policy and the reported amounts of assets, liabilities, income, expenses, the accompanying disclosures and the disclosure of contingent liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgements

The Company has made judgements in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements in the following areas:

- determination of depreciation method for property, plant and equipment;
- determination of reportable operating segments.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that may have a significant risk of resulting in a material adjustment in the year ended December 31, 2020 are included in the following accounting policies:

- impairment of trade receivables;
- net realizable value of inventory;
- useful life of property plant and equipment;
- recognition and measurement of provisions and contingencies, key assumptions about the likelihood and magnitude of an outflow of resources;
- measurement of defined benefit obligations: key actuarial assumptions;
- impairment test: assumptions and estimates used to determine the recoverable amount;
- Provision for zakat.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted and consistently applied in preparation of these financial statements are as follows:

(i). Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Cost includes all expenditure directly attributable to the construction or purchase of the item of property, plant and equipment. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates these accordingly. All repair and maintenance costs are recognized in the profit or loss as incurred. Improvements that increase the value or materially extend the life of the related assets are capitalized. Projects under construction are stated at cost and not depreciated and are transferred to property, plant and equipment as and when assets are available for intended use. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Lease hold improvements are depreciated at the lower of its useful life or lease term.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognized.

NATIONAL METAL MANUFACTURING AND CASTING COMPANY (MAADANIYAH)
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
Expressed in Saudi Riyal

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(i). Property, plant and equipment (Continued)

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

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings and leasehold improvements	33 years
Plant, machinery and equipment	25 - 33 years
Furniture, fixtures and office equipment	5 - 10 years
Vehicles, forklift and trollies	4 - 8 years
Tools and other equipment	3 - 13 years

(ii). Right-of-use assets and lease liabilities

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in "IFRS 16 - Leases". Currently, the Company has no lease contract as a lessor.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. Currently, the Company has no contract which includes lease and non-lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability mainly comprise of fixed lease payments.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

NATIONAL METAL MANUFACTURING AND CASTING COMPANY (MAADANIYAH)
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
Expressed in Saudi Riyal

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

Short-term leases and leases of low-value assets

The Company has selected not to recognise right-of-use assets and lease liabilities for leases of low value assets and short term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii). Investment property

Investment property is property (land or a building or part of a building or both) held to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, the Company measures its investment property using cost model i.e cost less accumulated depreciation and impairment, if any. The useful lives of investment property is 33 years.

Investment properties are derecognized either when they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the profit or loss in the year of de-recognition.

(iv). Intangible assets

Softwares

Softwares are measured at cost, less accumulated amortization and accumulated impairment losses, if any, and are amortised on a straight-line basis over the estimated useful lives of 5 years. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company and amount can be measured reliably. Softwares residual values, useful lives and impairment indicators are reviewed at each financial year end and adjusted prospectively, if considered necessary.

(v). Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units (CGUs).

Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(vi). Financial instruments

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

The Company determines the classification of its financial assets at initial recognition. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

- Initial recognition and 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 statement of profit or loss and other comprehensive income as incurred.

- Subsequent measurement

The financial assets are classified in the following measurement categories for the purpose of subsequent measurement:

- a) Those to be measured subsequently at fair value (either through other comprehensive income, or through statement of profit or loss), and
- b) Those to be measured at amortized cost.

For assets measured at fair value, gains and losses will either be recorded in the statement of profit or loss or other comprehensive income. For investments in equity instruments, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

Subsequent measurement of financial assets at amortized cost depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies financial assets at amortised cost based on the below:

- a) The asset is held within a business model with the objective of collecting the contractual cash flows, and
- b) The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Shareholder loans to joint venture entities are carried at amortized cost.

The Company's financial assets at amortized cost include investment in equity instruments designated at FVTOCI, trade and other receivables and cash and cash equivalents.

Trade receivables are stated at the amortized cost, which generally correspond to face value (original invoice amount), do not bear interest, and generally have a 60 to 90 days term, less any impairment. An allowance for doubtful debts is made based upon Company's best estimate of expected credit losses related to those receivables. Such estimate is based on customers' financial status and historical write-off experience. Account balances are written off against such allowance after all means of collection have been exhausted and potential of recovery is remote. Bad debts written off as such are recorded in the statement of profit or loss as incurred.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

- De-recognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of the transferred financial asset, the Company continues to recognize the financial asset and also recognises a collateralized borrowing for the proceeds received.

- Impairment of financial assets

The Company applies expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets and credit risk exposure that are debt instruments and are measured at amortized cost.

Expected credit losses are the probability-weighted estimate of credit losses (i.e. present value of all cash shortfalls) over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that the Company expects to receive. The expected credit losses consider the amount and timing of payments and hence, a credit loss arises even if the Company expects to receive the payment in full but later than when contractually due. The expected credit loss method requires assessing credit risk, default and timing of collection since initial recognition. This requires recognizing allowance for expected credit losses in the statement of profit or loss and other comprehensive income even for receivables that are newly originated or acquired.

Impairment of financial assets is measured as either 12 month expected credit losses or life time expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. '12 month expected credit losses' represent the expected credit losses resulting from default events that are possible within 12 months after the reporting date. 'Lifetime expected credit losses' represent the expected credit losses that result from all possible default events over the expected life of the financial asset.

Trade receivables are of a short duration, normally less than 12 months and hence the loss allowance measured as lifetime expected credit losses does not differ from that measured as 12 month expected credit losses. The Company applies simplified approach for measuring expected credit losses for trade receivables using a provision matrix based on ageing of receivables.

- Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value. Financial liabilities accounted at amortized cost like borrowings are accounted at the fair value determined based on the effective interest rate method (EIR) after considering the directly attributable transaction costs.

The financial liabilities are classified in the following measurement categories:

- a) Those to be measured as financial liabilities at fair value through profit or loss, and
- b) Those to be measured at amortized cost.

The Company classifies all financial liabilities as subsequently measured at amortized cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

The effective interest rate ("EIR") method calculates the amortized cost of a debt instrument by allocating interest charge over the relevant effective interest rate period. The effective interest rate is the rate that exactly discounts estimated future cash outflow (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. This category generally applies to borrowings and trade payables.

The Company's financial liabilities include trade and other payables and borrowings. The Company measures financial liabilities at amortized cost.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

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

Off setting of financial assets and financial liabilities

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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(vii). Fair value measurement

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values.

(viii). Inventories

Inventories are stated at lower of cost or estimated net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less any cost to complete the selling process. Cost is determined using the weighted average method. Cost of Inventories includes all cost of purchase, costs of conversion and other costs incurred to bring the inventory to their present location and condition.

When inventories are sold, the carrying amount of those inventories shall be recognized as expense in the year in which the related revenue is recognized. The amount of any write down of inventories to net realizable value and all losses of inventories are recognized as expense in the year the write down or loss occurs. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(ix). Cash and cash equivalents

Cash and cash equivalents include cash on hand and with banks and other short-term liquid investments with original maturities of three months or less from the purchase date. It also includes bank overdrafts which form an integral part of the Company's cash management and are likely to fluctuate from overdrawn to positive balances.

(x). Employees' end of service obligations

Employees end of service benefits are payable to all employees employed under the terms and conditions of the Labor Laws applicable to the Company, on termination of their employment contracts. The Company's obligation in respect of defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in current and prior years and discounting that amount to arrive at present value.

The Company sets the assumptions used in determining the key elements of the costs of meeting such future obligations. These assumptions are set after consultation with the Company's external actuaries and include those used to determine regular service costs and the financing elements related to the liabilities. The calculation of defined benefit obligation is performed by an external qualified actuary using the Projected Unit Credit Method.

Re-measurement of defined benefit liability, which comprise of actuarial gains and losses are recognised immediately in other comprehensive income. The Company determines net interest expense on the defined benefit obligation for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual year to the net defined benefit, taking into account any change in the net defined benefit obligation during the year as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the profit or loss.

(xi). Revenue recognition

The Company recognises revenue when control of the products sold, transfers to the customer after considering applicable shipping terms.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

(xii). Borrowing cost

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

(xiii). Expenses

Expenses are classified according to their function as part of cost of sales or cost of selling and distribution or administrative expenses. Production costs and direct manufacturing cost are classified as cost of sales. Selling and distribution expenses principally comprise the cost incurred in the distribution and sale of the Company's products. All other expenses are classified as general and administrative expenses. General and administrative expenses include direct and indirect costs not directly part of costs of sales. Allocations between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

(xiv). Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

(xv). Zakat

The Company is subject to the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat is provided on an accruals basis and is charged to the profit or loss. The zakat charge is computed on the higher of zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(xvi). Operating segment

An operating segment is a component of the Company 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 Company's other components. All operating segments' operating results are reviewed regularly by the Company's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available. Segment results that are reported to the Company's Chief Operating Decision Maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(xvii). Dividend

The Company recognizes a liability to make cash distribution when the distribution is authorized and the distribution is no longer at the discretion of the Company. As per the corporate laws in KSA, a distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity. Interim dividends, if any, are recorded when approved by the Board of Directors of the Company.

4. STANDARD ,INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS

4.1 New Standards, interpretations and amendments to existing standards

The following are the new interpretations and amendments to the standards that are effective in the current year and which either do not give rise to significant changes or not applicable to the Company's accounting policies:

Standards	Title	Effective date
IFRS 3	Business Combinations-Amendments to clarify the definition of a business	January 1, 2020
IAS 1	Presentation of Financial Statements- Amendments regarding the definition of materiality	January 1, 2020
IAS 41	Agriculture – The amendment removes the requirement for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13	January 1, 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2020
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reforms	January 1, 2020
IFRS 16	Amendment-to provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification	June 1, 2020
	Revised Conceptual Framework for Financial Reporting	January 1, 2020

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4.2 New and amended IFRS Standards that are not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company's management has decided not to choose the early adoption. Those new and amended standards and interpretations that are not yet effective are as follows:

Standards	Title	Effective date
IFRS 3	Business Combinations-Amendments updating a reference to the Conceptual Framework	January 1, 2022
IAS 1	Presentation of Financial Statements - Amendments regarding the classification of liabilities	January 1, 2022
IAS 16	Property, Plant and Equipment - Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use	January 1, 2022
IAS 37	Provisions, Contingent Liabilities and Contingent Assets- Amendments regarding the costs to include when assessing whether a contract is onerous	January 1, 2022
IFRS 4	Insurance Contracts-Amendments regarding the expiry date of the deferral approach	January 1, 2023
IFRS 9	Amendments regarding the interaction of IFRS 4 and IFRS 9	January 1, 2023
IFRS 17	Insurance Contracts - Amendments to address concerns and implementation challenges that were identified after IFRS 17	January 1, 2023

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5. PROPERTY, PLANT AND EQUIPMENT

2020	Buildings and leasehold improvements	Plant , machinery and equipment	Furniture, fixtures and office equipment	Vehicles, forklifts and trollies	Tools and equipment	Capital work-in-progress	Total
Cost							
January 1, 2020	112,801,755	350,398,386	5,327,296	9,585,668	16,708,310	3,162,900	497,984,315
Additions	466,241	581,720	329,925	62,200	-	8,289,624	9,729,710
Transfers	64,150	93,850	-	-	-	(158,000)	-
Disposals/write offs	-	(2,623,412)	(11,185)	(1,182,350)	-	-	(3,816,947)
December 31, 2020	113,332,146	348,450,544	5,646,036	8,465,518	16,708,310	11,294,524	503,897,078
Accumulated Depreciation							
January 1, 2020	71,027,589	215,675,910	4,650,673	7,895,469	14,632,280	-	313,881,921
Charge for the year	3,481,314	10,649,107	263,159	445,317	737,731	-	15,576,628
Disposals/write offs	-	(2,507,924)	(11,176)	(1,177,132)	-	-	(3,696,232)
December 31, 2020	74,508,903	223,817,093	4,902,656	7,163,654	15,370,011	-	325,762,317
Net book value							
December 31, 2020	38,823,243	124,633,451	743,380	1,301,864	1,338,299	11,294,524	178,134,761

2019	Buildings and leasehold improvements	Plant , machinery and equipment	Furniture, fixtures and office equipment	Vehicles, forklifts and trollies	Tools and equipment	Capital work-in-progress	Total
Cost							
January 1, 2019	111,060,707	349,413,025	5,632,860	9,937,568	16,606,011	2,593,247	495,243,418
Additions	972,226	2,732,433	178,900	536,500	102,299	1,391,838	5,914,196
Disposals/write offs	-	(1,747,072)	(484,464)	(888,400)	-	-	(3,119,936)
Transfers	768,822	-	-	-	-	(822,185)	(53,363)
December 31, 2019	112,801,755	350,398,386	5,327,296	9,585,668	16,708,310	3,162,900	497,984,315
Accumulated Depreciation							
January 1, 2019	67,576,912	206,524,452	4,785,203	8,200,751	13,665,500	-	300,752,818
Charge for the year	3,450,677	10,898,513	320,687	583,112	966,780	-	16,219,769
Disposals/write offs	-	(1,747,055)	(455,217)	(888,394)	-	-	(3,090,666)
December 31, 2019	71,027,589	215,675,910	4,650,673	7,895,469	14,632,280	-	313,881,921
Net book value							
December 31, 2019	41,774,166	134,722,476	676,623	1,690,199	2,076,030	3,162,900	184,102,394

- 5.1** Capital work-in-progress represents payments made by the Company towards the construction in progress for factories expansion and development of product lines.
- 5.2** Property, plant and equipment of the Company are constructed on lands leased from the Royal Commission for Jubail and Yanbu and Saudi Organization for Industrial Estate and Technology Zones for periods of 10 and 23 Hijri years, starting from 1 Dhu Al Hijjah 1434 (October 6, 2013) and 23 Sha'aban 1429 (August 24, 2008) respectively.
- 5.3** As at the reporting date , the management reassessed the recoverable amount of it's CGUs owing to the continuous operating losses. The recoverable amount was estimated based on value-in-use calculations which used cash flow projections from revised budgets approved by the Board of Directors of the Company. The growth rate used to extrapolate the cash flows of CGUs beyond the five years is 1% per annum (2019: 1% per annum). The cash flows have been discounted by 12% per annum (2019: 13% per annum). No impairment was required to be recorded as the recoverable amount was higher than the carrying value of respective CGUs as at December 31, 2020.

5.4 Allocation of depreciation charge for the year

	Note	2020	2019
Cost of sales		14,409,817	14,953,509
Selling and distribution expenses	23	268,807	300,903
General and administrative expenses	24	898,004	965,357
Total		15,576,628	16,219,769

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6. RIGHT OF USE ASSETS AND LEASE LIABILITIES

The Company leases lands. The lease terms on the various leases are between 10-23 years.(Refer note 5).

6.1 RIGHT-OF-USE ASSETS

	2020	2019
Cost		
At January 01,	4,712,150	5,463,058
Depreciation	(750,908)	(750,908)
At December 31,	3,961,242	4,712,150

6.2 LEASE LIABILITIES

	2020	2019
At January 01,	4,581,856	5,100,764
Interest charge	245,318	273,155
Payments	(696,563)	(792,063)
At December 31,	4,130,611	4,581,856

Presentation in the statement of financial position

	2020	2019
Non-current portion	3,557,290	4,034,519
Current portion	573,321	547,337
	4,130,611	4,581,856

The following table details the Company's remaining contractual maturity for its lease liabilities. The table has been drawn up based on the undiscounted cash flows of the lease liabilities. The table includes both interest and principal cash flows.

	2020	2019
Within one year	792,063	792,063
From two to five years	2,730,126	2,758,189
Over five years	1,516,488	2,280,488
	5,038,677	5,830,740

7. INTANGIBLE ASSETS

Softwares

	2020	2019
Cost		
January 1,	10,713,904	10,357,088
Additions	-	303,453
Write off	(1,308,020)	-
Transfers	-	53,363
December 31	9,405,884	10,713,904
Amortization		
January 1,	5,901,783	4,061,969
Charge for the year	1,881,177	1,839,814
Write off	(1,308,020)	-
December 31	6,474,940	5,901,783
Net book value	2,930,944	4,812,121

During the year 2019, the goodwill amounted to SR 40.1 million had been fully impaired.

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8. INVESTMENT PROPERTY

	2020	2019
Cost		
At the beginning of the year	6,783,950	6,783,950
	6,783,950	6,783,950
Accumulated depreciation		
At the beginning of the year	4,548,642	4,347,490
Charge for the year	201,152	201,152
At the end of the year	4,749,794	4,548,642
Net book values	2,034,156	2,235,308

For the purpose of disclosing fair value as per the requirements of IAS 40 "Investment Property", management performed an independent valuation for its investment properties as at December 31, 2020 and determined the fair value of investment properties as SR 9.8 million (December 31, 2019 : SR 9.6 million).

An independent valuation of the Company's investment properties was performed by an independent external valuer Mr.Hamed Abdulaziz A.AL Hamoud having License No.1210000849 (Licensed by Saudi Authority for Accredited Valuers) to determine the fair value of the investment properties at December 31, 2020.

9. EQUITY INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVTOCI)

In 2019, the Board of Directors of the Company, in its meeting held on October 27, 2019 resolved to invest in 10% of the share capital of National Automotive Manufacturing Company (NAMC), an investee Company, amounted to SR 3.8 million. The initial share capital of NAMC was SR 0.1 million which was subsequently increased to SR 37.5 million by its shareholders in 2019.

The Company has classified this investment at fair value through other comprehensive income at the initial recognition.As NAMC is in formation stage, the management believes that cost is the best estimate of its fair value and accordingly recorded this investment at cost.

10. INVENTORIES

	2020	2019
Raw materials	25,886,840	30,959,748
Finished goods	66,912,327	68,972,847
Works-in-process	7,596,681	9,491,861
Spare parts	8,914,464	7,746,396
Consumables and other inventories	3,308,335	4,837,126
	112,618,647	122,007,978
Less: provision for slow moving inventories	(7,043,873)	(74,726)
	105,574,774	121,933,252

Movement in the provision for slow moving inventories is as follows:

	2020	2019
Balance as at January 1	74,726	3,204,850
Charge for the year	6,969,147	2,440,865
Written off	-	(5,570,989)
Balance as at December 31	7,043,873	74,726

During the year, adjustments made for net realizable value of inventories amounted to SR 2.4 million (2019: nil).

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11. TRADE RECEIVABLES

	2020	2019
Trade receivables	92,074,056	117,093,771
Impairment of trade receivables	(15,860,852)	(13,125,347)
	76,213,204	103,968,424

Movement in impairment of trade receivables is as follows:

	2020	2019
Balance as at January 1,	13,125,347	12,939,369
Charge for the year	2,735,505	258,658
Written off	-	(72,680)
Balance as at December 31,	15,860,852	13,125,347

The ageing analysis of trade receivable is as follows:

	Total Outstanding	Amount not due	1-90 days	91-180 days	181-360 days	Over 361 days
December 31, 2020	92,074,056	31,456,861	24,068,617	8,716,008	12,359,938	15,472,632
December 31, 2019	117,093,771	38,014,042	29,751,701	11,933,912	18,343,676	19,050,440

12. PREPAYMENTS AND OTHER RECEIVABLES

	2020	2019
Prepayments	2,267,917	2,333,355
Advances to suppliers	2,804,637	4,514,825
Other receivables	292,048	298,267
	5,364,602	7,146,447

13. CASH AND CASH EQUIVALENTS

	2020	2019
Cash in hand	14,210	3,455
Cash at banks	21,958,187	8,689,948
Term deposits	14,619,922	11,002,633
	36,592,319	19,696,036

Term deposits with the local banks carry profit rate ranging from 1% to 2.65% per annum having original maturities of less than three months.

14. SHARE CAPITAL

The issued and paid up share capital of the Company is SR 281,120,890, which is divided into 28,112,089 shares (December 31, 2019: 28,112,089 shares) of SR 10 each.

	2020	2019
Number of shares in issue	28,112,089	28,112,089
Ordinary shares capital of SR 10 each –SR	281,120,890	281,120,890
Ordinary shares capital issued and fully paid –SR	281,120,890	281,120,890

15. STATUTORY RESERVE

In accordance with the Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

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16. LONG TERM LOANS

	2020	2019
Saudi Industrial Development Fund (SIDF)	25,150,000	25,750,000
Less : deferred financial charges	(1,082,666)	(1,530,666)
Less: current portion	(3,300,000)	(2,050,000)
	20,767,334	22,169,334
Other loans from local banks	39,800,000	42,554,874
Less: current portion	(13,400,000)	(11,400,000)
	26,400,000	31,154,874
Total long term loans –non current portion	47,167,334	53,324,208
Total long term loans –current portion	16,700,000	13,450,000

a) Loan from SIDF

In 2018, the Company obtained a loan from SIDF to finance a portion of the expansion project of the Company. The loan is repayable in unequal half yearly installments from December 2019 and is secured by promissory notes and a mortgaged on certain property, plant and equipment of the Company. The loan is repayable in full by April 2025. From the total instalment amounts due in 2020 amounted to SR 2 million, the Company has repaid SR 0.6 million in October 2020 and the remaining amount has been rescheduled over the remaining term of the loan. It contains certain covenants which requires, among other things, certain financial ratios to be maintained.

b) Loans from local banks

These loans have been obtained from two banks i.e. The Saudi British Bank (SABB) and the National Commercial Bank (NCB) to finance the expansion project cost of the Company.

In 2018, the Company obtained a new loan facility from NCB amounted to SR 12 million to finance its expansion project which was fully utilized as of December 31, 2020 (December 31, 2019: SR 4.5 million). This loan is subject to mark-up at SIBOR plus margin and is secured by promissory notes. It contains certain covenants which requires, among other things, certain financial ratios to be maintained.

SABB's loan has been provided under murabaha terms with limit of SR 50 million out of which SR 38 million was utilized as of December 31, 2020 (December 31, 2019: SR 38 million). This loan is repayable in semi-annual installments over five years starting from 2018. It is subject to mark-up at SIBOR plus margin and is secured by promissory notes.

The following are the aggregate maturity amounts of the long term loans as of December 31, 2020:

	Long term loans from local banks			
	SABB	NCB	SIDF	Total
2021	11,000,000	2,400,000	3,300,000	16,700,000
2022	12,000,000	2,400,000	4,400,000	18,800,000
2023	6,000,000	2,400,000	5,800,000	14,200,000
2024	-	2,400,000	7,100,000	9,500,000
2025	-	1,200,000	4,550,000	5,750,000
	29,000,000	10,800,000	25,150,000	64,950,000

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17. EMPLOYEES BENEFIT OBLIGATIONS

	2020	2019
January 1	26,865,487	25,298,136
Charge for the year – profit or loss	3,397,417	3,594,571
Remeasurement gain on defined benefit obligations – other comprehensive income	(440,847)	(853,299)
Payments made during the year	(1,806,443)	(1,173,921)
December 31	28,015,614	26,865,487

Measurement of end of service and other employees benefit obligations

Employees end of services obligations are determined by actuarial valuations using the Projected Unit Credit Method. The following table represents the components of the defined benefits liability as at December 31:

	End of Service Benefit Plan	
	2020	2019
As at January 1	26,865,487	25,298,136
<i>Charged to profit or loss</i>		
Current service cost	2,462,775	2,270,918
Interest cost	934,642	1,323,653
	3,397,417	3,594,571
<i>Charged to other comprehensive income</i>		
Payments during the year	(1,806,443)	(1,173,921)
Gain on remeasurement defined benefit obligations	(440,847)	(853,299)
As at December 31	28,015,614	26,865,487

Significant assumptions

	2020	2019
Discount rate per annum	2.25%	3.6%
Salary increase rate per annum	2.75%	3.85%
Duration	6.5 year	6.8 year

The sensitivity analysis of significant assumptions is as follows;

	2020	2019
Discount rate		
+1 % discount rate	25,982,295	24,724,653
-1 % discount rate	30,345,030	29,317,236
Salary rate:		
+1% salary rate	30,308,974	29,460,334
-1% salary rate	25,972,950	24,556,904

18. TRADE AND OTHER PAYABLES

	2020	2019
Trade payables	11,707,232	11,399,041
Notes payables	12,108,412	2,555,703
	23,815,644	13,954,744

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19. SHORT TERM LOANS

The Company arranged bank facilities ("the facilities") from local banks for working capital requirements in the form of opening letters of credit, letter of credit refinancing and short term loans. Short term loans are payable within one year. These facilities carry mark up at SIBOR plus a certain margin and are secured by promissory notes.

20. ACCRUED AND OTHER LIABILITIES

	2020	2019
Employees accruals	5,484,228	4,598,720
Accrued customs duty	680,069	680,069
Accrued expenses	4,295,098	3,304,601
Advances from customers	1,028,388	1,067,307
Dividend payable	760,243	760,243
Value added tax	1,032,381	197,378
Other liabilities	3,129,262	2,267,002
	16,409,669	12,875,320

21. ZAKAT

a) The principal elements of the zakat base are as follows:

	2020	2019
Non-current assets	(190,811,103)	(199,611,973)
Non-current liabilities	78,740,238	84,224,214
Opening shareholders' equity	308,510,867	372,766,557
Net loss before zakat	(35,135,593)	(59,617,503)

Some of the amounts were adjusted in arriving at the zakat base for the year ended December 31, 2020 .

b) The movement in zakat provision during the year is as follows:

	2020	2019
January 1	5,550,000	6,100,000
Charge for the year	5,678,991	5,491,486
Paid during the year	(6,048,991)	(6,041,486)
December 31	5,180,000	5,550,000

c) Status of assesment

The Company has submitted its zakat returns up to year ended December 31, 2019 and obtained the required certificates and official receipts. The Company has finalized its zakat assessments with GAZT up to 2018.

During the year, the Company has received assessments for the years 2017 and 2018 amounted to SR 876,691 out of which SR 384,845 was paid to GAZT. For the remaining amount, an appeal was filed in 2020. In 2021, the Company has agreed with GAZT for final settlement of SR 179,170 which was fully settled. These amounts which were accepted and paid by the Company are included in zakat charge for the year.

22. REVENUE

	2020	2019
Revenue	205,962,102	263,248,366

22.1 Disaggregation of revenue

A. By product

	2020	2019
Wire drawing and related products	136,249,650	194,779,772
Axles, foundries and spare parts	69,712,452	68,468,594
	205,962,102	263,248,366

B. By geography

	2020	2019
Local	119,142,130	116,983,310
Export	86,819,972	146,265,056
	205,962,102	263,248,366

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23. SELLING AND DISTRIBUTION EXPENSES

	Note	2020	2019
Employees related costs		5,042,518	5,284,961
Transportation and distribution		5,991,021	5,848,958
Depreciation	5.4	268,807	300,903
Rent		134,368	152,914
Insurance		270,350	270,329
Utilities		56,153	58,685
Advertising		72,584	212,832
Travelling		139,934	216,998
Others		799,053	945,111
		12,774,788	13,291,691

24. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2020	2019
Employees related costs		10,992,141	10,649,608
Professional fees		1,731,836	814,025
Depreciation	5.4	898,004	965,357
Amortization		605,860	605,860
Repairs and maintenance		273,861	273,134
Travel expenses		152,532	310,727
Telephone and utilities		291,446	357,192
Insurance		138,438	151,677
Security fees		406,252	412,264
Board of directors' expenses		1,478,520	1,341,300
IT expenses		1,111,483	1,055,732
Others		710,000	379,315
		18,790,373	17,316,191

25. OTHER EXPENSES

	Note	2020	2019
Provision for slow moving inventories	10	6,969,147	2,440,865
Adjustments to net realizable value of inventories	10	2,431,633	-
Impairment of goodwill	7	-	40,085,081
Impairment of trade receivables	11	2,735,505	258,658
		12,136,285	42,784,604

26. OTHER INCOME

	2020	2019
Scrap sales	363,829	874,367
Rental income	294,500	302,525
Foreign exchange (loss)/ gain	(262,943)	42,569
Compensation from vendors and settlement of insurance claims	-	7,200
(Loss)/ gain on disposal / write off of property, plant and equipment	(12,904)	37,680
Others	414,233	177,622
	796,715	1,441,963

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27. CONTINGENCIES AND COMMITMENTS

- (a) As of December 31, the Company's outstanding contingencies and commitments are as follows:

	2020	2019
Letter of credits	21,842,853	31,576,357
Letter of guarantees	55,750	55,750

- (b) As at December 31, 2020, the Company has outstanding capital commitments amounting to SR 1.4 million (December 31, 2019: SR 2.8 million) related to expansion projects and development of production lines.

28. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The related parties consist of major shareholders, parties controlled and influenced by them, Board of Directors and key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the Company. The transactions are dealt with on mutually agreed terms and the terms and conditions on these transactions are approved by the Company's management.

28.1 Transactions with related parties

The Company has transacted with National industrialization Company, a shareholder, which majorly include expenses paid on behalf of the Company.

	2020	2019
Balance as at January 1	614,442	381,894
Expenses paid on behalf of the Company	2,769,768	3,189,946
Amounts paid by the Company	(2,972,748)	(2,957,398)
Balance as at as at Decmber 31	411,462	614,442

Above balance is included under trade and other payables.

28.2 Transactions with key management personnel

	2020	2019
Key management executives	4,280,948	4,241,855
Directors' allowances and expenses	1,478,520	1,341,300
	5,759,468	5,583,155

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29. SEGMENTAL INFORMATION

Consistent with the Company's internal reporting process, business segments have been approved by management in respect of the Company's activities. The Company's sales, gross profit assets and liabilities, by business segment, are as follows:

2020	Transformation industries	Engineering and metal forming industries	Total
For the year ended December 31,2020			
Revenue	136,249,650	69,712,452	205,962,102
Gross profit	5,774,203	5,628,582	11,402,785
As of December 31, 2020			
Total assets	282,835,787	131,720,215	414,556,002
Total liabilities	101,455,966	44,962,906	146,418,872
2019			
For the year ended December 31,2019			
Revenue	194,779,772	68,468,594	263,248,366
Gross profit	12,875,817	4,367,151	17,242,968
As of December 31, 2019			
Total assets	310,741,220	141,614,912	452,356,132
Total liabilities	100,538,244	43,307,021	143,845,265

All of the Company's operations are located in the Kingdom of Saudi Arabia.

30. LOSS PER SHARE

The loss per share for the year is calculated by dividing net loss for the year by the weighted average number of outstanding shares. There has been no item of dilution of weighted average number of shares.

31. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of December 31, 2020, December 31, 2019, the carrying values of the financial assets and liabilities in the statement of financial position approximate to their fair values.

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32. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

	At amortized cost	At fair value through the profit and loss	At fair value through other comprehensive income	Total
December 31, 2020				
Equity instruments designated at fair value through other comprehensive income (FVTOCI)	-	-	3,750,000	3,750,000
Trade receivables	76,213,204	-	-	76,213,204
Cash and cash equivalents	36,592,319	-	-	36,592,319
	112,805,523	-	3,750,000	116,555,523
December 31, 2019				
Equity instruments designated at fair value through other comprehensive income (FVTOCI)	-	-	3,750,000	3,750,000
Trade receivables	103,968,424	-	-	103,968,424
Cash and cash equivalents	19,696,036	-	-	19,696,036
	123,664,460	-	3,750,000	127,414,460

Financial liabilities

	At amortized cost	At fair value through profit and loss	Total
December 31, 2020			
Borrowings	68,867,334	-	68,867,334
Trade and other payables	23,815,644	-	23,815,644
Accruals and other current liabilities	14,348,900	-	14,348,900
	107,031,878	-	107,031,878
December 31, 2019			
Borrowings	80,017,858	-	80,017,858
Trade and other payables	13,954,744	-	13,954,744
Accruals and other current liabilities	11,610,635	-	11,610,635
	105,583,237	-	105,583,237

33. FINANCIAL RISK MANAGEMENT

Overview

Risk management activities are governed at Board of Directors level. The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

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

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

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company's Board oversees how management monitors the Company's risk.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The company has established procedures to manage credit exposure including evaluation of customer credit worthiness, formal credit approvals, assigning credit limits, monitoring the outstanding receivable, maintaining receivable ageing details and ensuring the close follow up.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

Other financial assets

This comprises mainly of deposits with banks and other receivables. Credit risk arising from these financial assets is limited. Banks and recognized financial institutions have high credit ratings assigned by the international credit rating agencies.

Liquidity risk

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

The Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted and force majeure events, such as natural disasters.

Following are the maturity profile of the Company's financial liabilities based on contractual paymentss. The amounts are grossed and undiscounted and include estimated interest payments.

	Within 1 year	Between 2-5 years	More than 5 years	Total
December 31, 2020				
Borrowings	22,198,974	48,951,484	-	71,150,458
Trade and other payable	23,815,644	-	-	23,815,644
Accured and other liabilities	14,348,900	-	-	14,348,900
	60,363,518	48,951,484	-	109,315,002
December 31, 2019				
Borrowings	27,035,566	55,632,176	-	82,667,742
Trade and other payables	13,954,744	-	-	13,954,744
Accured and other liabilities	11,610,635	-	-	11,610,635
	52,600,945	55,632,176	-	108,233,121

The maturity profile of the Company's lease liabilities as at December 31, 2020 and 2019 are disclosed in note 6.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk

The Company exposure to currency risk is insignificant as majority of the transactions are denominated in US dollars, which is pegged to Saudi Riyals historically. In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to foreign currency risk at the end of the reporting year was as follows:

	USD	EUR	GBP	CHF	AED	Total
December 31, 2020						
Cash and cash equivalents	11,351,212	84,457	-	-	-	11,435,669
Trade receivables	84,460,999	-	-	-	-	84,460,999
Trade payables	1,264,675	2,583,651	11,115	-	6,356	3,865,797
Total monetary exposure	97,076,886	2,668,108	11,115	-	6,356	99,762,465
	USD	EUR	GBP	CHF	AED	Total
December 31, 2019						
Cash and cash equivalents	3,169,428	82,946	-	-	-	3,252,374
Trade receivables	60,871,663	-	-	-	-	60,871,663
Trade payables	1,008,501	2,605,480	4,825	-	12,650	3,631,456
Total monetary exposure	65,049,592	2,688,426	4,825	-	12,650	67,755,493

Interest rate risk

Interest rate risk is the risk that the value of financial instruments or their associated cash flows will fluctuate due to changes in market commission rates. The Company has no significant commission-bearing assets as at December 31, 2020 and December 31, 2019. Term deposits are fixed rate and therefore not subject to interest rate risk. However, as at December 31, 2020 and 2019, the Company's liabilities are subject to commission / interest rate risk and the Company is continuing monitoring its exposure to that risk.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company manages its capital to ensure that it will be able to continue as a going concern and provide returns to their shareholders. The Company management reviews the capital structure on a regular basis and decides on a healthy mix of debt and equity structure.

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34. SIGNIFICANT EVENTS

The existence of novel coronavirus (COVID-19) was confirmed during the first quarter of 2020 and has spread across multiple geographies, causing disruptions to businesses and economic activities. As a result, the management has taken preventive measures to ensure the health and safety of its employees, customers and environment to ensure the continuity of its operations. One of the most important precautionary measures taken by the Government was limiting public and private economic and social activities as well as imposing a complete curfew in some regions of the Kingdom and a partial curfew in other regions thereby not allowing to travel between cities except through permits issued by the official authorities.

There was no material impact on the performance of the Company till the end of the first quarter of 2020. With the decision taken by official authorities to ban the movement of transport over the course of 24 hours in number of cities in the Kingdom of Saudi Arabia and restriction of movements to export markets, mainly GCC, the financial performance of the Company has been impacted in the second quarter of 2020. However, from July 2020 onwards, the market has been started picking up gradually. All the business units of the Company have good level of inventories and ready to meet the requirements of the market and the flow of the supply chain has been coming back to normal. There is also an adequate liquidity to meet the running cost and expenses with back-up of bank facilities to finance working capital requirements. The main export market for the main product (PC strand) is GCC which has now opened its borders. In light of COVID-19, the Company has considered whether any adjustments and changes in judgments, key sources of estimation uncertainty and risk management are required to be considered and reported in these financial statements.

As the situation continues to evolve, the management will continue to assess the impact based on the prospective developments.

35. EVENTS AFTER REPORTING PERIOD

On February 28, 2021, the Board of directors has resolved to set off accumulated losses against share capital equivalent to an amount of 7.4% of share capital subject to regulatory approvals and the approval of shareholders. This will result in cancelling of 2,081,342 shares of the Company at the rate of 1 share for every 13.507 shares.

At the same meeting, the Board of directors has also resolved to increase the share capital of the Company by a way of a right issue amounted to SR 120 million subject to regulatory approvals and the approval of shareholders.

There have been no other significant events since the year ended December 31, 2020 till the date of authorization of these financial statements by the Board of directors that require either an adjustment or disclosure in these financial statements.

36. COMPARATIVE FIGURES

Certain reclassifications were made to the 2019 figures to conform to the current year's presentation.

37. APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved and authorized for issue by the Company's Board of Directors on March 29, 2021.