# UNITED ELECTRONICS COMPANY
## (A Saudi Joint Stock Company)

# CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 AND INDEPENDENT AUDITOR'S REPORT

**UNITED ELECTRONICS COMPANY**
**(A Saudi Joint Stock Company)**
**CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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# Independent auditor's report to the shareholders of United Electronics 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 Electronics Company (the "Company") and its subsidiaries (together the "Group") as at 31 December 2021, 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 profit or loss and other comprehensive income for the year ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

### Basis for opinion

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

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

**Independence**

We are independent of the Group in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Our audit approach

**Overview**

| | |
|---|---|
| Key audit matter | Expected credit loss allowance against investment in Islamic financing contracts |

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

# *Independent auditor's report to the shareholders of United Electronics Company (continued)*

## *Our audit approach (continued)*

**Overview (continued)**

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the Key audit matter |
|---|---|
| ***Expected credit loss allowance against investment in Islamic financing contracts*** | |
| As at 31 December 2021, the gross investment in Islamic financing contracts was Saudi Riyals 1.9 billion against which an expected credit loss ("ECL") allowance of Saudi Riyals 59.1 million was maintained.<br><br>The determination of ECL involves significant management judgement. The COVID-19 pandemic has also resulted in heightened uncertainty regarding the economic outlook in particular and has increased the level of judgement needed to determine the ECL. The key areas of judgement used by management to determine the ECL include:<br><br>• Categorisation of receivables into stages 1, 2 or 3 based on the identification of:<br><br>(i) exposures with a significant increase in credit risk ("SICR") since their origination; and<br>(ii) individually impaired / defaulted exposures.<br><br>• Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to the expected future cash flows, developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probability weights in line with the requirements of International Financial Reporting Standard 9 'Financial Instruments' ("IFRS 9"). | Our audit procedures included the following:<br><br>• Obtained an understanding of accounting policy adopted and methodology applied by management in the ECL model to determine the ECL allowance for investment in Islamic financing contracts and compared them against the requirements of IFRS 9.<br><br>• Evaluated and tested the design, implementation and the operating effectiveness of key controls over the ECL model including:<br><br>(i) governance and approval of key assumptions used;<br>(ii) classification of exposures into stages 1, 2 or 3, criteria for identification of SICR and the determination of individually impaired / defaulted exposures; and<br>(iii) integrity of data inputs into the ECL model.<br><br>• Assessed, for a selected sample of Islamic financing contracts, the appropriateness of the staging classification and management's computation of ECL allowance. |

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# *Independent auditor's report to the shareholders of United Electronics Company (continued)*

## *Our audit approach (continued)*

**Overview (continued)**

| Key audit matter | How our audit addressed the Key audit matter |
|---|---|
| We considered ECL against investment in Islamic financing contracts as of 31 December 2021 as a key audit matter in view of the judgments involved and consequently the associated audit risk around ECL calculations.<br><br>Refer to the significant accounting policies in Note 2.26 for the impairment of financial assets including investment in Islamic financing contracts; Note 3 which contains the disclosure of critical accounting judgments, estimates and assumptions relating to impairment losses; and Notes 13 and 28 which contain the disclosures of impairment losses, impairment allowance assessment methodology, credit quality analysis, key assumptions and factors considered in determination of ECL. | • Involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing the reasonableness of assumptions used in the ECL model including those used to determine PD, LGD and EAD including but not limited to the expected future cash flows, macroeconomic variables, forecasted macroeconomic scenarios in consideration of the COVID-19 pandemic and probability weights.<br><br>• Assessed the adequacy of disclosures in the consolidated financial statements. |

## *Other information*

Management is responsible for the other information. The other information comprises information included in the Annual Report of the Group (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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# *Independent auditor's report to the shareholders of United Electronics Company (continued)*

## *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.

## *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.

## *Independent auditor's report to the shareholders of United Electronics Company (continued)*

### *Auditor's responsibilities for the audit of the consolidated financial statements (continued)*

- 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.

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 consolidated 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.

**PricewaterhouseCoopers**

Ali A. Alotaibi
License Number 379

16 February 2022

PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
Lic No. 323/11/25/1
C.R 4030289002

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

| | Note | Year ended 31 December 2021 | 2020 |
|---|---|---|---|
| Revenue | 4 | 5,833,628 | 5,962,315 |
| Cost of revenue | | (4,649,978) | (4,923,015) |
| **Gross profit** | | 1,183,650 | 1,039,300 |
| Selling and distribution expenses | 5 | (538,038) | (530,301) |
| General and administrative expenses | 6 | (167,288) | (154,863) |
| Net impairment losses on financial assets | 13 | (25,498) | (5,001) |
| Other expenses | | (4,509) | (26,299) |
| Other income | | 16,813 | 24,564 |
| Finance charges | 7 | (37,771) | (49,581) |
| **Profit before zakat and income tax** | | 427,359 | 297,819 |
| Zakat expense | 23 | (27,357) | (13,761) |
| Income tax expense | 23 | (3,168) | (3,915) |
| **Net profit for the year** | | 396,834 | 280,143 |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified to profit or loss* | | | |
| Remeasurements of employee benefit obligations | 21 | 1,287 | (8,437) |
| *Items that may be reclassified to profit or loss:* | | | |
| Exchange differences on translation of foreign operations | | (120) | (140) |
| **Other comprehensive income (loss) for the year** | | 1,167 | (8,577) |
| **Total comprehensive income for the year** | | 398,001 | 271,566 |
| **Earnings per share (Saudi Riyals)** | | | |
| Basic earnings per share | 26 | 6.90 | 4.86 |
| Diluted earnings per share | 26 | 6.61 | 4.67 |

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

The consolidated financial statements including notes and other explanatory information were authorised for issue by the Board of Directors on 16 February 2022 and were signed on their behalf by:

| | | |
|---|---|---|
| **Wael Mohammed Khalil** | **Mohammed Galal Ali Fahmy** | **Abduljabbar AbdulRahman Mohammed AlAbduljabbar** |
| **Chief Financial Officer** | **Managing Director and Chief Executive Officer** | **Chairman of the Board of Directors** |

**UNITED ELECTRONICS COMPANY**
**(A Saudi Joint Stock Company)**
**Consolidated statement of financial position**
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Note | As at 31 December | |
|---|---|---|---|
| | | **2021** | **2020** |
| **Assets** | | | |
| **Non-current assets** | | | |
| Property and equipment | 8 | **447,102** | 452,229 |
| Right-of-use assets | 9 | **423,769** | 399,251 |
| Net investment in finance lease | | **10,988** | - |
| Intangible assets | 10 | **54,850** | 56,884 |
| Goodwill | 11 | **529** | 529 |
| Trade and other receivables | 12 | **4,898** | 1,374 |
| Investment in Islamic financing contracts | 13 | **748,424** | 468,626 |
| **Total non-current assets** | | **1,690,560** | 1,378,893 |
| | | | |
| **Current assets** | | | |
| Inventories | 14 | **1,202,517** | 935,618 |
| Net investment in finance lease | | **648** | - |
| Trade and other receivables | 12 | **116,719** | 95,899 |
| Current portion of investment in Islamic financing contracts | 13 | **464,604** | 334,293 |
| Cash and cash equivalents | 15 | **173,158** | 184,763 |
| **Total current assets** | | **1,957,646** | 1,550,573 |
| | | | |
| **Total assets** | | **3,648,206** | 2,929,466 |
| | | | |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 16 | **600,000** | 600,000 |
| Statutory reserve | 17 | **69,481** | 29,797 |
| Other reserves | | **15,404** | 7,488 |
| Retained earnings | | **339,672** | 212,594 |
| Treasury shares | 27 | **(32,000)** | (24,000) |
| **Total equity** | | **992,557** | 825,879 |
| | | | |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Deferred revenue from extended warranty program | 19 | **108,808** | 93,576 |
| Lease liabilities | 20 | **519,061** | 464,610 |
| Borrowings | 18 | **603,340** | 183,417 |
| Deferred tax liabilities | | **1,243** | 1,243 |
| Employee benefit obligations | 21 | **73,875** | 74,880 |
| Other liabilities | | **-** | 21 |
| **Total non-current liabilities** | | **1,306,327** | 817,747 |

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**UNITED ELECTRONICS COMPANY**
**(A Saudi Joint Stock Company)**
**Consolidated statement of financial position** (continued)
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Note | As at 31 December | |
|---|---|---|---|
| | | 2021 | 2020 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | 1,115,414 | 972,462 |
| Deferred revenue from extended warranty program | 19 | 86,349 | 66,706 |
| Lease liabilities | 20 | 32,984 | 71,350 |
| Borrowings | 18 | 82,458 | 156,583 |
| Zakat and income tax payable | 23 | 32,117 | 18,739 |
| **Total current liabilities** | | 1,349,322 | 1,285,840 |
| **Total liabilities** | | 2,655,649 | 2,103,587 |
| **Total equity and liabilities** | | 3,648,206 | 2,929,466 |

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

The consolidated financial statements including notes and other explanatory information were authorised for issue by the Board of Directors on 16 February 2022 and were signed on their behalf by:

| | | |
|---|---|---|
| **Wael Mohammed Mohammed Khalil** | **Mohammed Galal Ali Fahmy** | **Abduljabbar AbdulRahman Mohammed AlAbduljabbar** |
| **Chief Financial Officer** | **Managing Director and Chief Executive Officer** | **Chairman of the Board of Directors** |

**UNITED ELECTRONICS COMPANY**
**(A Saudi Joint Stock Company)**
**Consolidated statement of changes in equity**
**(All amounts in Saudi Riyals thousands unless otherwise stated)**

| | Note | Share capital | Statutory reserve | Other reserves: Share based payment reserve | Other reserves: Foreign currency translation reserve | Other reserves: Actuarial reserve | Other reserves: Total other reserves | Retained earnings | Treasury shares | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2020** | | 500,000 | 41,783 | 7,600 | (11) | 974 | 8,563 | 129,565 | (20,000) | 659,911 |
| Profit for the year | | - | - | - | - | - | - | 280,143 | - | 280,143 |
| Other comprehensive loss for the year | | - | - | - | (140) | (8,437) | (8,577) | - | - | (8,577) |
| **Total comprehensive income for the year** | | - | - | - | (140) | (8,437) | (8,577) | 280,143 | - | 271,566 |
| Transfer to statutory reserve | | - | 28,014 | - | - | - | - | (28,014) | - | - |
| Issuance of bonus shares | | 100,000 | (40,000) | - | - | - | - | (56,000) | (4,000) | - |
| Dividends | 30 | - | - | - | - | - | - | (113,100) | - | (113,100) |
| Employee share schemes - value of employee services | 27 | - | - | 7,502 | - | - | 7,502 | - | - | 7,502 |
| **At 31 December 2020** | | 600,000 | 29,797 | 15,102 | (151) | (7,463) | 7,488 | 212,594 | (24,000) | 825,879 |
| **At 1 January 2021** | | 600,000 | 29,797 | 15,102 | (151) | (7,463) | 7,488 | 212,594 | (24,000) | 825,879 |
| Profit for the year | | - | - | - | - | - | - | 396,834 | - | 396,834 |
| Other comprehensive income for the year | | - | - | - | (120) | 1,287 | 1,167 | - | - | 1,167 |
| **Total comprehensive income for the year** | | - | - | - | (120) | 1,287 | 1,167 | 396,834 | - | 398,001 |
| Transfer to statutory reserve | | - | 39,684 | - | - | - | - | (39,684) | - | - |
| Acquisition of treasury shares | | - | - | - | - | - | - | - | (8,000) | (8,000) |
| Dividends | 30 | - | - | - | - | - | - | (230,072) | - | (230,072) |
| Employee share schemes - value of employee services | 27 | - | - | 6,749 | - | - | 6,749 | - | - | 6,749 |
| **At 31 December 2021** | | 600,000 | 69,481 | 21,851 | (271) | (6,176) | 15,404 | 339,672 | (32,000) | 992,557 |

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

The consolidated financial statements including notes and other explanatory information were authorised for issue by the Board of Directors on 16 February 2022 and were signed on their behalf by:

| Wael Mohammed Mohammed Khalil | Mohammed Galal Ali Fahmy | Abduljabbar AbdulRahman Mohammed AlAbduljabbar |
|---|---|---|
| Chief Financial Officer | Managing Director and Chief Executive Officer | Chairman of the Board of Directors |

**UNITED ELECTRONICS COMPANY**
**(A Saudi Joint Stock Company)**
**Consolidated statement of cash flows**
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Note | Year ended 31 December 2021 | 2020 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before zakat and income tax | | 427,359 | 297,819 |
| Adjustments for: | | | |
| Depreciation of property and equipment | 8 | 41,497 | 42,922 |
| Property and equipment written-off | 8 | 289 | 7,315 |
| Loss on disposal of property and equipment | 8 | 120 | 35 |
| Depreciation of right-of-use assets | 9 | 46,463 | 52,325 |
| Amortization of intangible assets | 10 | 13,097 | 13,147 |
| Intangible assets written-off | 10 | 131 | 1,504 |
| Employee share schemes - value of employee services | | 6,749 | 7,502 |
| Amortization of extended warranty program | 19 | (89,559) | (70,994) |
| Net impairment losses on financial assets | 13 | 25,498 | 5,001 |
| Gain on termination of a lease | | (10,952) | - |
| Finance income from net investment in finance lease | | (1,888) | - |
| Finance charges | 7 | 48,988 | 49,581 |
| Provision for employee benefit obligations | 21 | 12,327 | 12,332 |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in trade and other receivables | | (24,344) | 50,063 |
| Increase in investment in Islamic financing contracts | | (435,607) | (332,781) |
| Increase in inventories | | (266,899) | (22,248) |
| Increase in trade and other payables | | 142,882 | 168,963 |
| Increase in deferred revenue from extended warranty program | | 124,434 | 95,989 |
| Cash generated from operations | | 49,368 | 378,475 |
| Employee benefit obligations paid | 21 | (12,310) | (5,790) |
| Finance cost paid | | (48,169) | (49,580) |
| Zakat and income tax paid | 23 | (17,147) | (10,855) |
| **Net cash (outflow) inflow from operating activities** | | (17,041) | 312,250 |
| **Cash flows from investing activities** | | | |
| Payments for purchases of property and equipment | 8 | (37,201) | (26,791) |
| Payments for purchases of intangible assets | 10 | (11,194) | (9,076) |
| Proceeds from disposal of property and equipment | | 616 | 58 |
| **Net cash outflow from investing activities** | | (47,779) | (35,809) |
| **Cash flows from financing activities** | | | |
| Proceeds from long-term borrowings | | 510,000 | 220,000 |
| Repayment of long-term borrowings | | (55,021) | - |
| Proceeds from short-term borrowings | | 1,480,000 | 2,372,000 |
| Repayment of short-term borrowings | | (1,590,000) | (2,652,000) |
| Dividends paid to the Company's shareholders | 30 | (230,072) | (113,100) |
| Acquisition of treasury shares | 27 | (8,000) | - |
| Principal elements of lease payments | | (53,692) | (21,550) |
| **Net cash inflow (outflow) from financing activities** | | 53,215 | (194,650) |

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**UNITED ELECTRONICS COMPANY**
**(A Saudi Joint Stock Company)**
**Consolidated statement of cash flows** (continued)
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Note | Year ended 31 December 2021 | 2020 |
|---|---|---|---|
| **Net change in cash and cash equivalents** | | (11,605) | 81,791 |
| Cash and cash equivalents at beginning of year | | 184,763 | 102,972 |
| **Cash and cash equivalents at end of year** | 15 | 173,158 | 184,763 |
| | | | |
| **Non-cash investing and financing activities:** | | | |
| Reversal of lease liabilities on termination of a lease | 20 | 42,517 | - |
| Reversal of right-of-use assets on termination of a lease | 9 | 31,565 | - |
| Right-of-use assets recorded against lease liabilities | 9 | 108,867 | 3,105 |
| Change in goodwill valuation | | - | 5,839 |

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

The consolidated financial statements including notes and other explanatory information were authorised for issue by the Board of Directors on 16 February 2022 and were signed on their behalf by:

| Wael Mohammed Mohammed Khalil | Mohammed Galal Ali Fahmy | Abduljabbar AbdulRahman Mohammed AlAbduljabbar |
|---|---|---|
| Chief Financial Officer | Managing Director and Chief Executive Officer | Chairman of the Board of Directors |

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 1 General information

United Electronics Company (the "Company") is a Saudi Joint Stock Company registered in Al Khobar under Commercial Registration ("CR") number 2051029841 dated 10 Jumada II 1425H (corresponding to 27 July 2004). The shares of the Company were listed on the Saudi Stock Exchange on 24 December 2011.

The registered address of the Company is P.O. Box 76688, Al Khobar 31952, Kingdom of Saudi Arabia.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") include the wholesale and retail trade in electric appliances, electronic gadgets, computers and their spare parts and accessories, furniture, office equipment and tools, maintenance and repair services, third-party marketing and consumer financing services.

The accompanying consolidated financial statements include accounts of the Company and it's following wholly owned subsidiaries:

| **Subsidiaries** | **Country of incorporation** |
|---|---|
| United Company for Maintenance Services Limited ("UCMS") | Kingdom of Saudi Arabia |
| United Company for Financial Services ("UCFS") | Kingdom of Saudi Arabia |
| United International Holding Company ("UIHC") | Kingdom of Saudi Arabia |
| Procco Financial Services W.L.L. ("Procco") | Kingdom of Bahrain |
| United Electronics Company Extra S.P.C. ("eXtra Bahrain") | Kingdom of Bahrain |
| United Electronics Company Extra L.L.C. ("eXtra Oman") | Sultanate of Oman |

As at 31 December 2021, the Group had a total of 52 branches (31 December 2020: 50 branches) out of which 47 branches are in the Kingdom of Saudi Arabia (31 December 2020: 45 branches in the Kingdom of Saudi Arabia).

On 21 October 2021, the Group incorporated a wholly owned subsidiary namely United International Holding Company with a share capital of Saudi Riyals 250.0 million divided into 25 million shares of Saudi Riyals 10 per share. The principal activities of UIHC as per the underlying By-laws include managing affiliates and carrying out investment activities in real estate and other securities.

On 16 December 2021, the Board of Directors of the Company approved the incorporation of a fully owned subsidiary in the Arab Republic of Egypt with an investment of Saudi Riyals 240 million. Legal formalities in respect of incorporation of such subsidiary were in process as of the date of approval of these consolidated financial statements. Accordingly, such information has had no impact on these consolidated financial statements.

The accompanying consolidated financial statements were authorized for issue by the Group's Board of Directors on 16 February 2022.

## 2 Summary of significant accounting policies

Significant accounting policies applied 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.

### 2.1 Basis of preparation

*(i) Statement of compliance*

These consolidated financial statements of the Group have been prepared in compliance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA").

*(ii) Historical cost convention*

These consolidated financial statements are prepared under the historical cost convention except as otherwise disclosed in the relevant accounting policies below.

*(iii) New standards and amendment to standards and interpretations*

The group has applied the following amendments for the first time for their reporting period commencing on or after 1 January 2021.

- Covid-19 - Related Rent Concessions - amendments to IFRS 16 'Leases' ("IFRS 16"); and
- Interest Rate Benchmark Reform - Phase 2 - amendments to IFRS 9 'Financial Instruments' ("IFRS 9"), IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16.

No material impact was identified upon adoption of the amended standards.

*(iv) Standards issued but not yet effective*

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the 31 December 2021 reporting period and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## 2.2 Foreign currencies

*(a) Functional and presentation currency*

The accompanying consolidated financial statements are presented in Saudi Riyals which is the functional currency and presentation currency of the Company. Each subsidiary in the Group determines its own functional currency (which is the currency of the primary economic environment in which the subsidiary operates), and as a result, items included in the financial statements of each subsidiary are measured using that functional currency.

*(b) Transaction and balances*

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies other than Saudi Riyals are recognized in the 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.

*(c) Group entities*

The results and financial position of foreign subsidiaries having reporting currencies other than Saudi Riyals are translated into Saudi Riyals as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the date of that statement of financial position;
(ii) income and expenses for each profit or loss are translated at average exchange rates; and
(iii) components of the equity accounts are translated at the exchange rates in effect at the dates the related items originated.

Cumulative adjustments resulting from the translations of the financial statements of the foreign subsidiaries and foreign branches into Saudi Riyals are recognized in other comprehensive income.

When investment in foreign subsidiaries is disposed-off or sold, currency translation differences that were recorded in other comprehensive income are recognized in profit or loss as part of gain or loss on disposal or sale.

## 2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Subsidiaries are all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Company's voting rights and potential voting rights.

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

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

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

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

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 2.4 Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any, except capital work-in-progress which are carried at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated as it is deemed to have an indefinite life.

Depreciation is calculated on property and equipment (except freehold land) so as to allocate its cost, less estimated residual value, on a straight-line basis over the estimated useful lives of the assets. Depreciation is charged to the profit or loss.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each annual 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.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Assets in the course of construction or development are capitalised in the capital work-in-progress account. The asset under construction or development is transferred to the appropriate category in property 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 capital work-in-progress comprises its purchase price, construction / development costs and any other directly attributable costs to the construction or acquisition of an item of capital work-in-progress intended by management. Capital work-in-progress is not depreciated.

### 2.5 Leases

The Group assesses at inception of a contract 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. The Group has leases for stores, lands, warehouses and office buildings where the rental contracts are typically for fixed periods ranging from 1 to 20 years but may have extension options.

(i) The Group as a lessee

At the lease commencement date, 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 which 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;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount 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 presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures 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 remeasured 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 remeasured 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 remeasured by discounting the revised lease payments using a revised discount rate.

***Right-of-use assets***

The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement dates, plus any initial direct costs incurred and future 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.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

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. Also see Note 2.21.

(ii) The Group as a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. In such case the lease is a finance lease, otherwise it is an operating lease.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract. The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in finance lease.

Lease payments received under operating leases are recognized as income on a straight-line basis over the lease term as part of revenues.

## 2.6 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets acquired in a business combination are recognized at their fair value. Intangible assets under development are stated at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Following initial recognition, intangible assets with finite useful lives are carried at cost less any accumulated amortization and any accumulated impairment losses, if any. Intangible assets with infinite useful lives are carried at cost less any accumulated impairment losses, if any.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the profit or loss in the expense category consistent with the function of the intangible asset.

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

## 2.7 Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than it's carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## 2.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Cost comprises purchase cost and, where applicable, direct costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realizable value comprises estimated selling prices and such markdowns are adjusted against the carrying value of the inventories.

Provision is made, where necessary for slow moving and damaged inventories. Cost of inventories is recognised as an expense and included in cost of revenue.

## 2.9 Provisions

Provisions are recognized when; the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

## 2.10 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method.

### 2.11 Cash and cash equivalents

For the purpose of consolidated statement of financial position, cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

### 2.12 Business combinations

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 the

- 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.

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 financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

## 2.13 Employee benefit obligations

The Group provides end-of-service benefits to its employees based on the terms and conditions of the labor laws applicable to the Company and its subsidiaries, on termination of their employment contracts.

The employment benefits plans are not funded. Accordingly, valuations of the obligations under the plans are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consists of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

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

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income in the period in which they occur.

Changes in the present value of defined benefit obligations resulting from the plan amendments or curtailments are recognized immediately in profit or loss as past service costs. The Group has no further payment obligations once the contributions have been paid.

## 2.14 Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and airfare allowance etc., that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented within accrued employees' costs under trade and other payables in the consolidated statement of financial position.

## 2.15 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer excluding amounts collected on behalf of third parties, if any.

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

*(i) In-store retail*

The Group operates a chain of retail outlets. Revenue from the sale of goods is recognized when the Group sells a product to the customer. Payment of the transaction price is due immediately when the customer purchases the product. The Group's return policy grants customers the right of return within 7-14 days depending on the type of product with certain requirements and certain exceptions. Accumulated experience is used to estimate such returns at the time of sale using the expected value method. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. The Group's revenue from retail operations also includes revenue recognized from provision of certain services incidental to the sale of some of its products, including but not limited to, delivery and installation etc. Revenue from such services is recognized at a point in time since the associated performance obligation is satisfied either instantly or within a short span of time.

*(ii) Wholesale*

The Group also sells its products to other resellers. Revenue is recognized when control of the products is transferred, being when the products are delivered to the reseller and there is no unfulfilled obligation that could affect the reseller's acceptance of the products. This type of sale involves credit terms of 30-90 days and corresponding trade receivables are recognised.

*(iii) E-commerce*

Sales are also conducted online in the territories where the Group operates through their website and mobile application. Revenue is recognized upon transfer of control i.e. when the products are delivered to the customers, typically within 3-5 days. Payment of the transaction price is normally received upon placing online orders and recognized as a liability until the recognition of revenue.

*(iv) Provision of extended warranty services*

The Group provides customers with an option to purchase extended warranty beyond that covered by the manufacturer for certain products. The contract is separately priced as a distinct service. The Group accounts for such arrangement as a separate performance obligation service on the basis of the nature and period of warranty coverage. The Group recognizes the consideration received as a liability, which is later amortized over the period of warranty.

*(v) Gift cards*

The Group sells gift cards to customers which can be redeemed for goods. The consideration received from such sales are recognized as a contract liability being a performance obligation and recognized as revenue when the gift cards are redeemed by the customers. The validity of such gift cards is typically one year and in case of unredeemed gift cards, revenue is recognized in full upon their expiry.

*(vi) Income from Islamic financing activities*

Income from Islamic financing contracts including installment sales, Murabaha and Tawarruq financing is recognized over the term of the contract using the effective yield method. The effective yield is the rate that exactly discounts the estimated future cashflows through the life of the financial asset to its carrying amount. The calculation of effective yield includes transaction costs and origination fees income received.

## 2.16 Cost of revenues

Cost of revenues include actual product cost and the cost of transportation to the Group's distribution facilities and stores from suppliers. Cost of revenues is reduced by supplier payments that are not reimbursements of specific, incremental and identifiable costs. Cost of revenues also include the finance cost associated with Islamic financing contracts.

## 2.17 Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus shares issued during the year and excluding treasury shares.

Diluted EPS is determined by dividing the profit or loss attributable to ordinary shareholders and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### 2.18 Borrowings

Borrowings are initially recognized at fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition, borrowings are measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are derecognised from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

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.

### 2.19 Zakat and income tax

Zakat is provided for in accordance with Zakat, Tax and Customs Authority ("ZATCA") regulations applicable in the Kingdom of Saudi Arabia. Income tax for foreign entities is provided for in accordance with the relevant income tax regulations of the countries of incorporation.

Zakat, for the Company and its local subsidiaries, is calculated based on approximate zakat base and adjusted net profit and is charged to profit or loss. Additional amounts, if any, are accounted for when determined to be required for payment.

### 2.20 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue 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 to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

### 2.21 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial 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 cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

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

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

## 2.22 Treasury shares

Own equity instruments that are reacquired ("treasury shares"), for discharging obligations under the Employee Stock Option Programme ("ESOP"), are recognised at cost and presented as a deduction from equity and are adjusted for any transaction costs and gains or losses on sale of such shares. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the treasury shares. Any difference between the carrying amount and the consideration, if reissued, is recognised in retained earnings.

## 2.23 Share-based payment - Employee option plan

Certain employees of the Group receive remuneration in the form of equity settled share-based payments under the ESOP, whereby employees render services as consideration for the option to purchase fixed number of Company's shares ("Option") at a predetermined price.

The cost of ESOP is recognised as an expense in profit or loss, together with a corresponding increase in other reserves, in equity, over the period during which the vesting service conditions are fulfilled. The total amount to be expensed is determined by reference to the fair value of the options granted including any market performance conditions (e.g. the entity's share price), excluding the impact of any service and non-market performance vesting conditions and including the impact of any non-vesting conditions.

The Group has set up an economic hedge by purchasing treasury shares. Accordingly, the share based payment reserve (representing the cumulative expense arising from ESOP) is transferred into retained earnings upon expiry of the ESOP, whether or not the options vest to the employees.

The cumulative expense recognised for ESOP at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest.

When the terms of the ESOP are modified the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction or is otherwise beneficial to the employee as measured at the date of the modification.

When the ESOP is terminated, it is treated as if the options vested on the date of termination, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting service conditions within the control of either the entity or the employees are not met. However, if a new ESOP is substituted for the terminated ESOP and designated as a replacement award on the date that it is granted, the terminated and new ESOPs are treated as if they were a modification of the original ESOP.

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

All other assets are classified as non-current.

A liability is current when:

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

All other liabilities are classified as non-current.

## 2.25 Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by shareholders of the Company. Interim dividends, if any, are recorded when approved by the Board of Directors. A corresponding amount is recognised directly in the consolidated statement of changes in equity.

## 2.26 Financial instruments

### 2.26.1 Financial assets

*(a) Classification*

Classification and subsequent measurement of debt instruments depend on:

- The Group's business model for managing the asset; and
- The contractual cash flow characteristics of the asset.

Business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at Fair Value Through Profit or Loss ("FVTPL").

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payment of principal and interest (the "SPPI" test). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Group's financial assets are classified and measured at amortised cost as such assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI").

*(b) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of Group's financial assets are at amortised cost. Finance income from these financial assets is included in finance income using the effective profit rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss.

*(c) Recognition and de-recognition of financial assets*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Any gain or loss arising on derecognition is recognised directly in the profit or loss.

*(d) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of Group's financial assets are at amortised cost. Finance income from these financial assets is included in finance income using the effective profit rate method.

*(e) Impairment*

The Group assesses on a forward looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For investments in Islamic financing contracts, the Group applies the three-stage model ('general model') for impairment based on changes in credit quality since initial recognition.

Stage 1 ("Performing") includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognised and finance income is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the ECL that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset, weighted by the probability that the loss will occur in the next 12 months.

Stage 2 ("Under-performing") includes financial instruments that have had a significant increase in credit risk since initial recognition, unless they have low credit risk at the reporting date, but that do not have objective evidence of impairment. A significant increase in credit risk is presumed if a receivable is more than 30 days past due. For these assets, lifetime ECL are recognised, but finance income is still calculated on the gross carrying amount of the asset. Lifetime ECL are the ECL that result from all possible default events over the maximum contractual period during which the Group is exposed to credit risk. ECL are the weighted average credit losses, with the respective risks of a default occurring as the weights.

Stage 3 ("Non-performing") includes financial assets that have objective evidence of impairment at the reporting date. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due. For these assets, lifetime ECL are recognised and finance income is calculated on the net carrying amount (that is, net of credit allowance).

The Group, when determining whether the credit risk on a financial instrument has increased significantly, considers reasonable and supportable information available (e.g. days past due, customer credit scoring etc.), in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument.

For trade and other receivables, the Group applies the simplified approach which requires lifetime expected credit losses to be recognised from initial recognition of the receivables.

Financial assets are written-off only when there is no reasonable expectation of recovery.

Where financial assets are written-off, the Group continues to engage enforcement activities to attempt to recover the receivable due. Where recoveries are made, after write-off, are recognized in the profit or loss.

Impairment losses on financial assets are presented separately on the consolidated statement of profit or loss and other comprehensive income. For details regarding credit risk management, refer Note 28.

### 2.26.2 Financial liabilities

All financial liabilities are recognized at the time when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortised cost using the effective interest rate 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 de-recognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in profit or loss.

### 2.26.3 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and net amounts reported in the consolidated financial statements, when the Group has a legally enforceable right, which is not contingent on anything, to set off the recognised amounts and intends either to settle on a net basis, or to realise the assets and liabilities simultaneously.

## 2.27 Investment in Islamic financing contracts

### 2.27.1 Tawarruq financing contracts

Tawarruq is an agreement wherein the Group sells a product to its customer which the Group has purchased and subsequently to such sale, arranges to sell the underlying asset and pay out the sale proceeds to the customer. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Tawarruq sale contracts include the total sale payments on the Tawarruq agreement (Tawarruq financing contracts). The difference between the Tawarruq financing contracts and the cost of the product sold, is recorded as unearned Tawarruq profit and for presentation purposes, is deducted from the gross amounts due under the Tawarruq financing contracts.

### 2.27.2 Murabaha financing contracts

Murabaha is an Islamic form of financing wherein, the Group based on request from its customers, purchases specific commodities and sells them to the customers at a price equals to the Group's cost plus profit, payable on deferred basis in installments. The difference between the Murabaha sale contracts receivable and the cost of the sold asset, is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the reconciliation of gross and net investment amount under the Murabaha financing contracts.

### 2.27.3 Installment sales receivables

Products sold under installment arrangement, which transfer the control of the goods to the customer, are reflected as sales upon delivery of the products to the customer. Amounts due from customers related to such installment sales are included in investment in Islamic financing contracts. The difference between the installment sales contracts receivable and the cost of the sold asset, is recorded as unearned installment sales profit and for presentation purposes, is deducted from the gross amounts due under the reconciliation of gross and net investment amount under the installment sales financing contracts.

## 3 Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by SOCPA, requires the use of certain critical estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments 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.

Moreover, the Group's management has proactively assessed the potential impact of the COVID-19 pandemic for any further regulatory and government restrictions, both locally and in the markets in which the Group operates, that could adversely affect the Group's supply chain, demand of its products, as well as the distribution network that could cause a negative impact on the financial performance. Management has concluded that the Group's critical accounting judgements, estimates and assumptions remain appropriate under the current circumstances for the purpose of preparation of these consolidated financial statements. Further, management will continue to assess the impact based on prospective developments.

The estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below:

*(a) Provision for slow moving inventories*

Inventory markdowns and provision for slow moving and damaged items:

Inventories are held at the lower of cost and net realizable value. When inventories become old, obsolete or subject to technological changes, an estimate is made of their net realizable value. Factors considered in the determination of mark downs include current and anticipated demand, customer preferences and seasonal trends. For individually significant amounts this estimation is performed on an individual basis. Items which are not individually significant, but which are old or obsolete, are assessed collectively and a mark down is applied according to the inventory type and the degree of aging or obsolescence, based on historical selling prices. Furthermore, management maintains provision for slow moving and damaged inventories.

At year-end, if the inventories' markdown and provision increased/decreased by 10% with all other variables held constant, net profit for the year would have been higher or lower by Saudi Riyals 1.8 million (31 December 2020: Saudi Riyals 1.7 million).

*(b) Measurement of ECL allowance*

(All amounts in Saudi Riyals thousands unless otherwise stated)

Measurement of ECL allowance is an estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are further detailed in Note 28.

The following components have a major impact on ECL allowance: definition of default, significant increase in credit risk, probability of default (PD), exposure at default (EAD), and loss given default (LGD), as well as models of macro-economic scenarios used as forward-looking information. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

An increase or decrease of 10% in the macro-economic factors with all other variables held constant, will result in an increase/decrease of Saudi Riyals 3.3 million in the ECL allowance (31 December 2020: Saudi Riyals 2.1 million).

An increase or decrease of 10% in the loss rates (PDs and LGDs) assuming macro-economic factors remain the same, will result in an increase of Saudi Riyals 6.0 million or a decrease of Saudi Riyals 5.8 million, respectively in the ECL allowance (31 December 2020: an increase of Saudi Riyals 3.7 million or a decrease of Saudi Riyals 3.6 million, respectively in the ECL allowance).

## 4 Revenue

| | 2021 | 2020 |
|---|---|---|
| **Recognized at a point in time** | | |
| Retail | **4,135,118** | 4,380,961 |
| Wholesale | **32,878** | 44,103 |
| E-commerce | **1,227,225** | 1,247,142 |
| | **5,395,221** | 5,672,206 |
| **Recognized over time** | | |
| Extended warranty program | **89,562** | 70,998 |
| Others | **1,976** | 4,314 |
| | **91,538** | 75,312 |
| Income from Islamic financing contracts | **346,869** | 214,797 |
| | **5,833,628** | 5,962,315 |

## 5 Selling and distribution expenses

| | Note | 2021 | 2020 |
|---|---|---|---|
| Salaries and benefits | | **267,356** | 240,246 |
| Advertising | | **46,229** | 52,261 |
| Depreciation | 8,9 | **84,487** | 90,317 |
| Delivery charges | | **21,206** | 31,070 |
| Utilities, printing and stationery | | **27,054** | 27,324 |
| Bank charges on electronic receipts | | **26,053** | 18,340 |
| Repairs and maintenance | | **16,022** | 16,990 |
| Security services | | **9,703** | 10,256 |
| Amortisation | 10 | **4,587** | 8,720 |
| Others | | **35,341** | 34,777 |
| | | **538,038** | 530,301 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 6 General and administrative expenses

| | Note | 2021 | 2020 |
|---|---|---|---|
| Salaries and benefits | | **125,440** | 125,704 |
| Amortisation | 10 | **8,510** | 4,427 |
| Professional fees | | **6,436** | 3,989 |
| Information technology support | | **5,712** | 4,138 |
| Depreciation | 8,9 | **3,473** | 4,930 |
| Repairs and maintenance | | **4,190** | 4,220 |
| Others | | **13,527** | 7,455 |
| | | **167,288** | 154,863 |

## 7 Finance charges

| | Note | 2021 | 2020 |
|---|---|---|---|
| Finance cost on lease liabilities | 20 | **35,831** | 40,559 |
| Finance cost on borrowings | | **1,940** | 8,305 |
| Others | | **-** | 717 |
| | | **37,771** | 49,581 |

Finance charges amounting to Saudi Riyals 11.2 million (31 December 2020: Saudi Riyals 5.4 million) related to the consumer financing activities have been presented under 'Cost of revenue'.

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 8 Property and equipment

| | 1 January | Additions | Disposals | Transfers | Written-off | 31 December |
|---|---|---|---|---|---|---|
| **2021** | | | | | | |
| **Cost** | | | | | | |
| Land | 110,889 | - | - | - | - | **110,889** |
| Buildings and leasehold improvement | 406,899 | 3,889 | - | 4,627 | - | **415,415** |
| Furniture, fixtures and office equipment | 296,090 | 17,891 | (705) | 1,751 | (3,030) | **311,997** |
| Vehicles | 22,524 | 425 | (3,025) | - | (542) | **19,382** |
| Capital work-in-progress | 17,489 | 14,996 | - | (6,378) | - | **26,107** |
| | 853,891 | 37,201 | (3,730) | - | (3,572) | **883,790** |
| **Accumulated depreciation** | | | | | | |
| Buildings and leasehold improvement | (145,070) | (19,995) | - | - | - | **(165,065)** |
| Furniture, fixtures and office equipment | (238,823) | (20,763) | 661 | - | 2,766 | **(256,159)** |
| Vehicles | (17,769) | (739) | 2,527 | - | 517 | **(15,464)** |
| | (401,662) | (41,497) | 3,188 | - | 3,283 | **(436,688)** |
| **Net book value** | 452,229 | | | | | **447,102** |

(All amounts in Saudi Riyals thousands unless otherwise stated)

| | 1 January | Additions | Disposals | Transfers | Written-off | 31 December |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Cost** | | | | | | |
| Land | 110,889 | - | - | - | - | 110,889 |
| Buildings and leasehold improvement | 396,667 | 7,997 | (1,156) | 8,020 | (4,629) | 406,899 |
| Furniture, fixtures and office equipment | 285,493 | 12,128 | (126) | 3,870 | (5,275) | 296,090 |
| Vehicles | 24,955 | 208 | (2,506) | - | (133) | 22,524 |
| Capital work-in-progress | 23,489 | 6,458 | - | (12,458) | - | 17,489 |
| | 841,493 | 26,791 | (3,788) | (568) | (10,037) | 853,891 |
| **Accumulated depreciation** | | | | | | |
| Buildings and leasehold improvement | (126,830) | (18,999) | 328 | - | 431 | (145,070) |
| Furniture, fixtures and office equipment | (218,170) | (22,968) | 142 | - | 2,173 | (238,823) |
| Vehicles | (19,064) | (955) | 2,132 | - | 118 | (17,769) |
| | (364,064) | (42,922) | 2,602 | - | 2,722 | (401,662) |
| **Net book value** | 477,429 | | | | | 452,229 |

The buildings and leasehold improvements of the Group are constructed on land parcels leased under renewable lease agreements for durations ranging from 1 to 20 Hijra years.

The estimated useful lives of assets are as follows:

| | Number of years |
|---|---|
| • Building and leasehold improvements | 10 - 33 |
| • Furniture, fixtures and office equipment | 4 - 10 |
| • Vehicles | 5 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

Depreciation for the years ended 31 December has been allocated as follows:

| | Note | 2021 | 2020 |
|---|---|---|---|
| Selling and distribution expenses | 5 | **38,139** | 38,107 |
| General and administrative expenses | 6 | **3,358** | 4,815 |
| | | **41,497** | 42,922 |

## 9 Right-of-use assets

| | 1 January | Additions | Adjustments | 31 December |
|---|---|---|---|---|
| **2021** | | | | |
| **Cost** | | | | |
| Land | 314,952 | 76,702 | 2,103 | **393,757** |
| Stores | 131,052 | 32,165 | (11,048) | **152,169** |
| Warehouses | 51,086 | - | (37,801) | **13,285** |
| Offices building | 3,104 | - | - | **3,104** |
| | 500,194 | 108,867 | (46,746) | **562,315** |
| **Accumulated depreciation** | | | | |
| Land | (42,232) | (20,772) | - | **(63,004)** |
| Stores | (45,706) | (22,255) | 1,300 | **(66,661)** |
| Warehouses | (11,618) | (2,869) | 7,560 | **(6,927)** |
| Offices building | (1,387) | (567) | - | **(1,954)** |
| | (100,943) | (46,463) | 8,860 | **(138,546)** |
| **Net book value** | 399,251 | | | **423,769** |

| | 1 January | Additions | Adjustments | 31 December |
|---|---|---|---|---|
| **2020** | | | | |
| **Cost** | | | | |
| Land | 314,952 | - | - | 314,952 |
| Stores | 131,052 | - | - | 131,052 |
| Warehouses | 51,086 | - | - | 51,086 |
| Offices building | - | 3,104 | - | 3,104 |
| | 497,090 | 3,104 | - | 500,194 |
| **Accumulated depreciation** | | | | |
| Land | (21,141) | (21,091) | - | (42,232) |
| Stores | (22,424) | (23,282) | - | (45,706) |
| Warehouses | (5,053) | (6,565) | - | (11,618) |
| Offices building | - | (1,387) | - | (1,387) |
| | (48,618) | (52,325) | - | (100,943) |
| **Net book value** | 448,472 | | | 399,251 |

Also see Note 20.

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 10 Intangible assets

| | 1 January | Additions | Write-off | 31 December |
|---|---|---|---|---|
| **2021** | | | | |
| **Cost** | | | | |
| Computer software | 116,244 | 8,962 | (131) | **125,075** |
| Assets under development | 4,695 | 2,232 | - | **6,927** |
| | 120,939 | 11,194 | (131) | **132,002** |
| **Accumulated amortization** | | | | |
| Computer software | (64,055) | (13,097) | - | **(77,152)** |
| **Net book value** | 56,884 | | | **54,850** |

| | 1 January | Additions | Transfers | Adjustment | Write-off | 31 December |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Cost** | | | | | | |
| Computer software | 113,171 | 4,381 | 567 | 5,839 | (7,714) | 116,244 |
| Assets under development | - | 4,695 | - | - | - | 4,695 |
| | 113,171 | 9,076 | 567 | 5,839 | (7,714) | 120,939 |
| **Accumulated amortization** | | | | | | |
| Computer software | (57,118) | (13,147) | - | - | 6,210 | (64,055) |
| **Net book value** | 56,053 | | | | | 56,884 |

Intangible assets, with finite useful lives, are amortized on a straight-line basis over their estimated useful lives of 5 - 10 years. The remaining useful lives of such intangible assets range from 1 - 10 years.

Adjustment to intangible assets represents an adjustment due to increase in valuation of intangible assets on fair value allocation to a subsidiary's assets. Also see Note 11.

## 11 Goodwill

During 2019, the Group acquired Procco against a cash consideration of Saudi Riyals 5.0 million. Goodwill arising from such acquisition has been recorded in the consolidated statement of financial position after the Group completed the purchase price allocation, within 12 months of the acquisition.

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 12 Trade and other receivables

| | Note | 2021 | 2020 |
|---|---|---|---|
| Trade receivables | | **48,967** | 36,896 |
| Less: allowance for expected credit losses (ECL) | 28 | **(2,507)** | (2,507) |
| Net trade receivables | | **46,460** | 34,389 |
| Prepaid expenses | | **20,782** | 17,961 |
| Claim receivable and refundable deposits | | **12,901** | 6,369 |
| Advances to suppliers | | **11,561** | 4,838 |
| Advances to employees | | **7,357** | 8,166 |
| Due from related parties | 25 | **2,231** | 2,407 |
| Other assets | | **20,325** | 23,143 |
| | | **121,617** | 97,273 |
| **Less: non-current portion** | | | |
| Prepaid expenses and advances to employees | | **(4,898)** | (1,374) |
| **Current portion** | | **116,719** | 95,899 |

Also see Note 28.

## 13 Investment in Islamic financing contracts

| | 2021 | 2020 |
|---|---|---|
| Instalment sales receivables, net | **26,967** | 99,752 |
| Investment in Tawarruq financing contracts, net | **832,644** | 451,176 |
| Investment in Murabaha financing contracts, net | **353,417** | 251,991 |
| | **1,213,028** | 802,919 |
| Less: non- current portion | **(748,424)** | (468,626) |
| Current portion | **464,604** | 334,293 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

### 13.1 Reconciliation between gross and net investment in Islamic financing contracts is as follows:

| | Installment sales | | Tawarruq finance | | Murabaha finance | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Gross investment in Islamic financing contracts | **66,412** | 188,101 | **1,314,159** | 753,833 | **490,020** | 356,474 | **1,870,591** | 1,298,408 |
| Unearned finance and processing fee income | **(13,655)** | (61,201) | **(457,582)** | (287,922) | **(127,172)** | (98,601) | **(598,409)** | (447,724) |
| Present value of investment in Islamic financing contracts' ("P.V. of I.F.C.") | **52,757** | 126,900 | **856,577** | 465,911 | **362,848** | 257,873 | **1,272,182** | 850,684 |
| Allowance for ECL | **(25,790)** | (27,148) | **(23,933)** | (14,735) | **(9,431)** | (5,882) | **(59,154)** | (47,765) |
| Net investment in Islamic financing contracts ("Net investment in I.F.C.") | **26,967** | 99,752 | **832,644** | 451,176 | **353,417** | 251,991 | **1,213,028** | 802,919 |
| Net investment in Islamic financing contracts - non-current portion | **-** | (20,305) | **(616,060)** | (347,324) | **(132,364)** | (100,997) | **(748,424)** | (468,626) |
| Net investment in Islamic financing contracts - current portion | **26,967** | 79,447 | **216,584** | 103,852 | **221,053** | 150,994 | **464,604** | 334,293 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

### 13.2 The movement in allowance for ECL on Islamic financing contracts is as follows:

| | Installment sales | | Tawarruq finance | | Murabaha finance | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Opening balance | **27,148** | 40,250 | **14,735** | 1,313 | **5,882** | 1,332 | **47,765** | 42,895 |
| (Reversal) charge for the year | **(798)** | (12,971) | **19,375** | 13,422 | **6,921** | 4,550 | **25,498** | 5,001 |
| Write-offs during the year | **(560)** | (131) | **(10,177)** | - | **(3,372)** | - | **(14,109)** | (131) |
| Closing balance | **25,790** | 27,148 | **23,933** | 14,735 | **9,431** | 5,882 | **59,154** | 47,765 |

### 13.3 Stage-wise analysis of Islamic financing contracts and the respective ECL are as follows:

| **31 December 2021** | **Installment sales** P.V. of I.F.C. | Allowance for ECL | Net investment in I.F.C. | **Tawarruq finance** P.V. of I.F.C. | Allowance for ECL | Net investment in I.F.C. | **Murabaha finance** P.V. of I.F.C. | Allowance for ECL | Net investment in I.F.C. | **Total** P.V. of I.F.C. | Allowance for ECL | Net investment in I.F.C. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Performing (Stage 1) | **10,949** | **(703)** | **10,246** | **812,454** | **(6,019)** | **806,435** | **341,694** | **(1,720)** | **339,974** | **1,165,097** | **(8,442)** | **1,156,655** |
| Under-performing (Stage 2) | **3,865** | **(768)** | **3,097** | **9,814** | **(2,067)** | **7,747** | **5,149** | **(574)** | **4,575** | **18,828** | **(3,409)** | **15,419** |
| Non-performing (Stage 3) | **37,943** | **(24,319)** | **13,624** | **34,309** | **(15,847)** | **18,462** | **16,005** | **(7,137)** | **8,868** | **88,257** | **(47,303)** | **40,954** |
| | **52,757** | **(25,790)** | **26,967** | **856,577** | **(23,933)** | **832,644** | **362,848** | **(9,431)** | **353,417** | **1,272,182** | **(59,154)** | **1,213,028** |

| **31 December 2020** | **Installment sales** P.V. of I.F.C. | Allowance for ECL | Net investment in I.F.C. | **Tawarruq finance** P.V. of I.F.C. | Allowance for ECL | Net investment in I.F.C. | **Murabaha finance** P.V. of I.F.C. | Allowance for ECL | Net investment in I.F.C. | **Total** P.V. of I.F.C. | Allowance for ECL | Net investme nt in I.F.C. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Performing (Stage 1) | 61,602 | (531) | 61,071 | 445,805 | (4,425) | 441,380 | 247,881 | (1,833) | 246,048 | 755,288 | (6,789) | 748,499 |
| Under-performing (Stage 2) | 9,930 | (1,134) | 8,796 | 4,517 | (1,071) | 3,446 | 2,791 | (310) | 2,481 | 17,238 | (2,515) | 14,723 |
| Non-performing (Stage 3) | 55,368 | (25,483) | 29,885 | 15,589 | (9,239) | 6,350 | 7,201 | (3,739) | 3,462 | 78,158 | (38,461) | 39,697 |
| | 126,900 | (27,148) | 99,752 | 465,911 | (14,735) | 451,176 | 257,873 | (5,882) | 251,991 | 850,684 | (47,765) | 802,919 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

### 13.4 Stage-wise movement in provision for impairment of investment in Islamic financing contracts is as follows:

| | Performing | Under-performing | Non-performing | Total |
|---|---|---|---|---|
| **2021** | | | | |
| 1 January 2021 | **6,789** | **2,515** | **38,461** | **47,765** |
| Individual financial assets transferred to under-performing (lifetime expected credit losses) | **(96)** | **1,062** | **(104)** | **862** |
| Individual financial assets transferred to non -performing (credit-impaired financial assets) | **(516)** | **(925)** | **14,854** | **13,413** |
| Individual financial assets transferred to performing (12-month expected credit losses) | **11** | **(378)** | **(593)** | **(960)** |
| New financial assets originated | **5,410** | **1,555** | **7,286** | **14,251** |
| Write-offs | **(126)** | **(112)** | **(13,871)** | **(14,109)** |
| Other changes | **(3,030)** | **(308)** | **1,270** | **(2,068)** |
| 31 December 2021 | **8,442** | **3,409** | **47,303** | **59,154** |

| | Performing | Under-performing | Non-performing | Total |
|---|---|---|---|---|
| **2020** | | | | |
| 1 January 2020 | 5,126 | 4,745 | 33,024 | 42,895 |
| Individual financial assets transferred to under-performing (lifetime expected credit losses) | (37) | 371 | (6) | 328 |
| Individual financial assets transferred to non -performing (credit-impaired financial assets) | (153) | (303) | 5,165 | 4,709 |
| Individual financial assets transferred to performing (12-month expected credit losses) | 1 | (122) | (88) | (209) |
| New financial assets originated | 5,393 | 1,092 | 7,278 | 13,763 |
| Write-offs | - | - | (131) | (131) |
| Other changes | (3,541) | (3,268) | (6,781) | (13,590) |
| 31 December 2020 | 6,789 | 2,515 | 38,461 | 47,765 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

Following factors contributed to the change in the ECL allowance during the years ended 31 December 2021 and 2020:

- Transfers between Stage 1, 2 and 3, due to balances experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial assets recognised during the period;
- Financial assets written off; and
- Other changes to ECL representing impact of changes in PDs and EADs in the period, arising from update of inputs to ECL models, and unwinding of discount due to the passage of time since ECL is measured on a present value basis.

## 13.5 Category-wise movement in stage-wise ECL allowance is as follows:

| | **Installment sales** | | | **Tawarruq finance** | | | **Murabaha finance** | | | **Total** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2021** | **Performing (Stage 1)** | **Under-performing (Stage 2)** | **Non-performing (Stage 3)** | **Performing (Stage 1)** | **Under-performing (Stage 2)** | **Non-performing (Stage 3)** | **Performing (Stage 1)** | **Under-performing (Stage 2)** | **Non-performing (Stage 3)** | **Performing (Stage 1)** | **Under-performing (Stage 2)** | **Non-performing (Stage 3)** |
| At 1 January | 531 | 1,134 | 25,483 | 4,425 | 1,071 | 9,239 | 1,833 | 309 | 3,740 | 6,789 | 2,514 | 38,462 |
| Transfers | - | - | - | (445) | (121) | 10,186 | (156) | (119) | 3,970 | (601) | (240) | 14,156 |
| New financial assets originated | - | - | - | 4,049 | 1,150 | 4,450 | 1,361 | 405 | 2,836 | 5,410 | 1,555 | 7,286 |
| Write-offs | - | - | (560) | (117) | (93) | (9,967) | (9) | (19) | (3,344) | (126) | (112) | (13,871) |
| Other changes | 172 | (366) | (604) | (1,893) | 60 | 1,939 | (1,309) | (2) | (65) | (3,030) | (308) | 1,270 |
| At 31 December | 703 | 768 | 24,319 | 6,019 | 2,067 | 15,847 | 1,720 | 574 | 7,137 | 8,442 | 3,409 | 47,303 |

| | **Installment sales** | | | **Tawarruq finance** | | | **Murabaha finance** | | | **Total** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2020** | **Performing (Stage 1)** | **Under-performing (Stage 2)** | **Non-performing (Stage 3)** | **Performing (Stage 1)** | **Under-performing (Stage 2)** | **Non-performing (Stage 3)** | **Performing (Stage 1)** | **Under-performing (Stage 2)** | **Non-performing (Stage 3)** | **Performing (Stage 1)** | **Under-performing (Stage 2)** | **Non-performing (Stage 3)** |
| At 1 January | 3,777 | 4,360 | 32,113 | 812 | 8 | 493 | 538 | 376 | 417 | 5,127 | 4,744 | 33,023 |
| Transfers | - | - | - | (134) | 234 | 4,254 | (56) | (289) | 815 | (190) | (55) | 5,069 |
| New financial assets originated | - | - | - | 3,834 | 829 | 4,472 | 1,560 | 264 | 2,808 | 5,394 | 1,093 | 7,280 |
| Write-offs | - | - | (131) | - | - | - | - | - | - | - | - | (131) |
| Other changes | (3,246) | (3,226) | (6,499) | (87) | - | 20 | (209) | (42) | (301) | (3,542) | (3,268) | (6,780) |
| At 31 December | 531 | 1,134 | 25,483 | 4,424 | 1,071 | 9,239 | 1,833 | 309 | 3,739 | 6,789 | 2,514 | 38,461 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

### 13.6 Maturity profile of gross investment in Islamic financing contracts and present value of investment in Islamic financing contracts is as follows:

| | 2021 | 2020 |
|---|---|---|
| **Gross investment in Islamic financing contracts** | | |
| Within one year | **811,234** | 589,281 |
| From one to two years | **507,928** | 338,523 |
| From two to three years | **305,160** | 201,616 |
| From three to four years | **182,192** | 111,205 |
| Four to five years | **64,077** | 57,783 |
| | **1,870,591** | 1,298,408 |
| **Present value of investment in Islamic financing contracts** | | |
| Within one year | **590,328** | 402,501 |
| From one to two years | **341,111** | 226,769 |
| From two to three years | **192,735** | 124,234 |
| From three to four years | **110,520** | 64,742 |
| Four to five years | **37,488** | 32,438 |
| | **1,272,182** | 850,684 |

## 14 Inventories

| | 2021 | 2020 |
|---|---|---|
| Inventories | **1,166,211** | 920,927 |
| Goods-in-transit | **39,602** | 14,691 |
| | **1,205,813** | 935,618 |
| Less: provision for slow moving inventories | **(3,296)** | - |
| | **1,202,517** | 935,618 |

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

| | 2021 | 2020 |
|---|---|---|
| At 1 January | - | - |
| Additions | **12,798** | 12,197 |
| Write-offs | **(9,502)** | (12,197) |
| At 31 December | **3,296** | - |

At 31 December 2021, inventories amounting to Saudi Riyals 107.1 million (31 December 2020: Saudi Riyals 73.0 million) were carried at their net realizable value. The cost of inventories recognised as expense amounted to Saudi Riyals 4,614.3 million (31 December 2020: Saudi Riyals 4,917.6 million) including inventory markdowns amounting to Saudi Riyals 21.9 million (31 December 2020: Saudi Riyals 17.0 million). Transportation costs required to bring inventories to their present location and condition amounting to Saudi Riyals 24.4 million (31 December 2020: Saudi Riyals 24.7 million) have been charged to Cost of revenue.

## 15 Cash and cash equivalents

| | 2021 | 2020 |
|---|---|---|
| Cash at bank | **160,749** | 170,913 |
| Cash in hand | **12,409** | 13,850 |
| | **173,158** | 184,763 |

Also see Note 28.

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 16 Share capital

The share capital of the Company as of 31 December 2021 and 2020 consisted of 60 million shares stated at Saudi Riyals 10 per share.

*Reconciliation of number of shares outstanding:*

| | 2021 | 2020 |
|---|---|---|
| At 1 January | **57,600,000** | 48,000,000 |
| Shares issued | **-** | 10,000,000 |
| Treasury shares | **(81,784)** | (400,000) |
| At 31 December | **57,518,216** | 57,600,000 |

## 17 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws, the Company is required to transfer 10% of the net profit for the year to a statutory reserve until such reserve equals to 30% of its share capital. The statutory reserve in the accompanying consolidated financial statements is the statutory reserve of the Company. This reserve is currently not available for distribution to shareholders of the Company.

## 18 Borrowings

The Group has bank facilities from local banks for letters of credit, letters of guarantee, Murabaha and Tawarruq financings. These facilities are subject to Islamic Shariah principles. The loan facilities are denominated in Saudi Riyals and bear financial charges based on prevailing market rates. Certain credit facility agreements contain financial covenants requiring maintenance of certain financial ratios and other matters, of which the Group was in compliance with at 31 December 2021.

| | 2021 | 2020 |
|---|---|---|
| **Long-term borrowings** | | |
| Murabaha facilities | **674,979** | 220,000 |
| **Short-term borrowings** | | |
| Murabaha facilities | **10,000** | 50,000 |
| Tawarruq facilities | **-** | 70,000 |
| | **684,979** | 340,000 |
| Accrued finance cost | **819** | - |
| | **685,798** | 340,000 |
| Classification of borrowings is presented below: | | |
| Current portion (including short-term borrowings) | **82,458** | 156,583 |
| Non-current portion | **603,340** | 183,417 |
| | **685,798** | 340,000 |

The long-term Murabaha borrowings outstanding relate to UCFS, which utilizes the facilities obtained by the Group. The various facilities and their respective utilization levels are as follows:

(All amounts in Saudi Riyals thousands unless otherwise stated)

**Murabaha I**

Total amount allocated to such sub-facility is Saudi Riyals 250 million. Each tranche of facility utilisation is repayable in 20 quarterly installments commencing 6 months after receipt of the borrowed amount. As at 31 December 2021, the Group has an outstanding loan balance of Saudi Riyals 233 million against this facility (31 December 2020: Saudi Riyals 120 million).

**Murabaha II**

Total amount allocated to such sub-facility is Saudi Riyals 50 million. The tenure of the borrowing facility was less than one year and the amount was settled during the year ended 31 December 2021.

**Murabaha III**

Total amount allocated to such sub-facility is Saudi Riyals 500 million. Each tranche of facility utilisation is repayable in 48 monthly installments commencing 6 months from receipt of the borrowed amount. As at 31 December 2021, the Group has an outstanding loan balance of Saudi Riyals 392 million against this facility (31 December 2020: Saudi Riyals 100 million).

**Murabaha IV**

Total amount utilised by the Group under such facility is Saudi Riyals 365 million. The tenure of the borrowing facility was less than one year and was settled during the year ended 31 December 2021.

**Murabaha V**

Total amount allocated to such sub-facility is Saudi Riyals 400.0 million. Each tranche of facility utilization is repayable in 16 quarterly installments commencing 6 months from receipt of the borrowed amount. As at 31 December 2021, the Group has an outstanding loan balance of Saudi Riyals 50 million against this facility (31 December 2020: Saudi Riyals Nil).

**Tawarruq I**

Total amount allocated to such sub-facility is Saudi Riyals 70 million. The tenure of the borrowing facility was less than one year, and the amount was settled during the year ended 31 December 2021.

All loan facilities above are denominated in Saudi Riyals and bear financial charges based on Saudi Arabian Interbank Offered Rate (SAIBOR) ranging between SAIBOR plus 1.1% to 1.9%.

The maturities of the borrowings are as follows:

| | **2021** | **2020** |
|---|---|---|
| Less than 6 months | **81,639** | 132,083 |
| Between 6 - 12 months | **85,708** | 24,500 |
| Between 1 and 2 years | **171,417** | 49,000 |
| Between 2 and 5 years | **342,215** | 131,417 |
| Above 5 years | **4,000** | 3,000 |
| | **684,979** | 340,000 |

Maturity profile of borrowings, including finance cost component, is disclosed in Note 28.

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 19 Deferred revenue from extended warranty program

Revenue from the Group's extended warranty program is deferred upon consideration received from the customers and amortised over the period of contract.

The breakup of current and non-current portion of the deferred revenue is as follows:

| | 2021 | 2020 |
|---|---|---|
| Non-current portion | **108,808** | 93,576 |
| Current portion | **86,349** | 66,706 |
| | **195,157** | 160,282 |

Movement of deferred revenue from extended warranty program is as follows:

| | 2021 | 2020 |
|---|---|---|
| At January | **160,282** | 135,287 |
| Contracts issued | **124,434** | 95,989 |
| Revenue recognised | **(89,559)** | (70,994) |
| At 31 December | **195,157** | 160,282 |

The carrying value of deferred revenue from extended warranty program on the consolidated statement of financial position represents unsatisfied performance obligations at the end of the reporting period.

Revenue recognised that was included in the contract liability balance at the beginning of the period amounted to Saudi Riyals 66.8 million (31 December 2020: Saudi Riyals 69.8 million).

## 20 Lease liabilities

| | Note | 2021 | 2020 |
|---|---|---|---|
| At 1 January | | **535,960** | 554,405 |
| Additions | | **108,867** | 3,105 |
| Finance cost | 7 | **35,831** | 40,559 |
| Repayments | | **(86,849)** | (54,634) |
| Adjustments | | **(41,764)** | (7,475) |
| At 31 December | | **552,045** | 535,960 |

Lease liabilities on the consolidated statement of financial position are presented as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Non-current portion | | **519,061** | 464,610 |
| Current portion | | **32,984** | 71,350 |
| | | **552,045** | 535,960 |

Maturity profile of lease liabilities is disclosed in Note 28.

(All amounts in Saudi Riyals thousands unless otherwise stated)

*i) Other amounts recognised in profit and loss*

| | 2021 | 2020 |
|---|---|---|
| Expense relating to short-term and low value leases (included in selling and marketing and general and administrative expenses) | 4,925 | 2,463 |

The total cash outflow for leases in 2021 was Saudi Riyals 91.8 million (2020: Saudi Riyals 57.0 million).

*ii) Additional information about the Group's leasing activities*

The Group has leases for stores, lands, warehouses and office buildings. Rental contracts are typically for fixed periods ranging from 1 to 20 years but may have extension options.

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

Extension and termination options are included to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension options held are exercisable only by mutual agreement of the Group and the respective lessor.

During the year ended 31 December 2021, the Group has received COVID-19-related rent concession on one of its leases due to which the remaining lease obligation has not been revised. The resulting impact, amounting to Saudi Riyals 2.7 million is recognized in the profit or loss. Adjustments in the lease liabilities relate to the early termination of a lease pertaining to one of the Group's warehouses.

## 21 Employee benefit obligations

### 21.1 General description of the plan

The Group operates defined benefit plans in line with the labour law requirements in the Kingdom of Saudi Arabia ("KSA"), the Kingdom of Bahrain ("Bahrain") and the Sultanate of Oman ("Oman"). The end of service benefit payments under the plans 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 KSA, Bahrain and Oman. Employees' end of service benefit plans are unfunded plans and the benefit payment obligations are met when they fall due upon employee's termination of employment. The latest valuation of employee benefit obligations under the projected unit credit method was carried out by an independent actuary as at 31 December 2021.

### 21.2 Movement in net liability recognised in the consolidated statement of financial position

| | 2021 | 2020 |
|---|---|---|
| 1 January | 74,880 | 59,901 |
| Current service cost | 10,913 | 9,457 |
| Interest expense | 1,679 | 2,875 |
| Remeasurements | (1,287) | 8,437 |
| Payments | (12,310) | (5,790) |
| 31 December | 73,875 | 74,880 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 21.3 Amounts recognised in the consolidated statement of profit or loss and other comprehensive income

| | 2021 | 2020 |
|---|---|---|
| Current service cost | **10,913** | 9,457 |
| Interest expense | **1,679** | 2,875 |
| **Total amount recognised in profit or loss** | **12,592** | 12,332 |
| Remeasurements | | |
| (Gain)/loss due to change in financial assumptions | **(3,376)** | 7,039 |
| Loss due to change in demographic assumptions | **51** | - |
| Loss due to change in experience adjustments | **2,038** | 1,398 |
| **Total amount recognised in other comprehensive income** | **(1,287)** | 8,437 |

## 21.4 Key actuarial assumptions

| | 2021 | 2020 |
|---|---|---|
| Discount rate | **2.95% - 5.50%** | 2.10% - 5.30% |
| Salary growth rate | **2.00%** | 2.00% |
| Retirement age | **60 years** | 60 years |

## 21.5 Sensitivity analysis for actuarial assumptions

| | Change in assumption | | Impact on employee benefit obligations | |
|---|---|---|---|---|
| **2021** | Increase in assumption | Decrease in assumption | Increase in assumption | Decrease in assumption |
| Discount rate | **0.50%** | **0.50%** | **(2,403)** | **2,534** |
| Salary growth rate | **0.50%** | **0.50%** | **2,032** | **(1,953)** |

| | Change in assumption | | Impact on employee benefit obligations | |
|---|---|---|---|---|
| **2020** | Increase in assumption | Decrease in assumption | Increase in assumption | Decrease in assumption |
| Discount rate | 0.50% | 0.50% | (2,661) | 2,820 |
| Salary growth rate | 0.50% | 0.50% | 2,811 | (2,679) |

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied when calculating the employee benefit obligations.

The methods and assumptions used in preparing the sensitivity analysis for 2021 and 2020 presented above are consistent.

(All amounts in Saudi Riyals thousands unless otherwise stated)

### 21.6 Expected maturity analysis

The weighted average duration of the defined benefit obligation is 6.7 years (2020: 7.3 years). The expected maturity analysis of employee benefit obligations is as follows:

| | Less than a year | 1 - 2 years | 2 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **31 December 2021** | **9,560** | **11,567** | **29,621** | **48,976** | **99,724** |
| **31 December 2020** | 8,787 | 9,958 | 28,629 | 45,859 | 93,233 |

## 22 Trade and other payables

| | Note | 2021 | 2020 |
|---|---|---|---|
| Trade payables | | **901,069** | 787,098 |
| Advance from customers | | **47,443** | 26,698 |
| Salaries and benefits | | **45,513** | 47,585 |
| Accrued expenses | | **43,416** | 32,224 |
| Value added tax (VAT) payable | | **41,862** | 16,145 |
| Gift cards | | **25,088** | 28,669 |
| Due to related parties | 25 | **818** | 2,848 |
| Others | | **10,205** | 31,195 |
| | | **1,115,414** | 972,462 |

The carrying value of deferred revenue from gift cards and advances from customers on the consolidated statement of financial position represents unsatisfied performance obligations at the end of the reporting period. Advances from customers, principally represent, orders awaiting shipment and the amounts are recognised as revenue upon satisfaction of performance obligation.

## 23 Zakat and income tax matters

The Group is subject to zakat and income tax. In accordance with the regulations of the ZATCA, zakat is payable at 2.578% on all components of the zakat base except for adjusted net profit for the year which is subject to zakat at the rate of 2.5%. The Group, along with its Saudi Arabian subsidiaries, files its zakat return on consolidated basis, except for UCFS which files its separate zakat return on a stand-alone basis since zakat is payable at 2.577% of zakat base subject to a minimum and maximum capping / threshold of 4 times or 8 times, respectively of profit before zakat, in accordance with the ZATCA regulations. The income tax provision is related to eXtra Oman where the income tax is calculated at a tax rate of 15% as per Omani income tax regulations.

### 23.1 Components of approximate zakat base

The significant components of the zakat base under the applicable zakat regulations principally comprise shareholders' equity, provisions at the beginning of year, long-term borrowings and adjusted net profit, less deduction for the net book value of property and equipment, investments and certain other items.

(All amounts in Saudi Riyals thousands unless otherwise stated)

### 23.2 Provision for zakat and income tax

The movement in the zakat and tax provision for the year was as follows:

| | **Zakat** | **Income tax** | **Total** |
|---|---|---|---|
| 1 January 2021 | 15,524 | 3,215 | **18,739** |
| Provision | 27,357 | 3,168 | **30,525** |
| Payments | (13,560) | (3,587) | **(17,147)** |
| **31 December 2021** | **29,321** | **2,796** | **32,117** |
| 1 January 2020 | 11,477 | - | 11,477 |
| Provision | 13,761 | 4,356 | 18,117 |
| Payments | (9,714) | (1,141) | (10,855) |
| **31 December 2020** | 15,524 | 3,215 | 18,739 |

### 23.3 Status of final assessments

The Group has obtained zakat certificates from the ZATCA for the years through 2020. The ZATCA has finalized the Group's zakat assessments for the years through 2010 and years 2014 and 2017.

During 2020, the Group received revised assessments from the ZATCA for the years 2015, 2016 and 2018 claiming additional zakat amounting to Saudi Riyals 1.8 million out of which Saudi Riyals 1.0 million were paid by the Group and the Group subsequently filed an appeal against the remaining amounts with ZATCA. The management believes that no further provision is required in these consolidated financial statements.

During 2021, the Group received assessments from the ZATCA for the years 2019 and 2020 claiming additional zakat amounting to Saudi Riyals 9.1 million. Subsequent to the year ended 31 December 2021, the Group filed an appeal against the claim with the ZATCA. Management believes that the provisions maintained in these consolidated financial statements are adequate and no further provision is required.

Assessments for the years 2011 through 2013 are currently under review by the ZATCA.

Zakat and income tax assessments for UCFS and eXtra Oman respectively for years since inception are currently under review by the relevant tax authorities.

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 24 Segmental information

*a) Operating segments*

The Group is organised into business units based on factors including distribution method, targeted customers, products and geographic location.

The Group has two major operating segments namely, 'Sales and services' and 'Consumer finance'. The Board of Directors of the Group, considered as Chief Operating Decision Maker, review the internal management reports of each segment at least quarterly for the purpose of resources allocation and assessment of performance. All other operating segments that are not reportable are combined under "Others".

The following summary describes the operations of each reportable segment.

| **Reportable segment** | **Operation** |
|---|---|
| Sales and services | Retail, wholesale, e-commerce, installation and repair services of electronics products, computers, smartphones and accessories, extended warranties, gift cards and installment sales. |
| Consumer finance | Consumer financing activities under Murabaha and Tawarruq financing arrangements (Tas'heel). |

The segmental information was as follows:

**As at and for the year ended 31 December 2021**

| | Sales and services | Consumer finance | Others | Intersegment eliminations | Total from external customers |
|---|---|---|---|---|---|
| Revenue | | | | | |
| - At a point in time | 5,395,221 | - | - | - | 5,395,221 |
| - Over time | 135,536 | 300,895 | 20,985 | (19,009) | 438,407 |
| | 5,530,757 | 300,895 | 20,985 | (19,009) | 5,833,628 |
| Net profit | 262,611 | 128,774 | 6,617 | (1,168) | 396,834 |

| | Sales and services | Consumer finance | Others | Intersegment eliminations | Total |
|---|---|---|---|---|---|
| Total assets | 3,224,873 | 1,257,586 | 259,587 | (1,093,840) | 3,648,206 |
| Total liabilities | 2,182,755 | 776,845 | 5,460 | (309,411) | 2,655,649 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

**As at and for the year ended 31 December 2020**

| | Sales and services | Consumer finance | Others | Intersegment eliminations | Total from external customers |
|---|---|---|---|---|---|
| Revenue | | | | | |
| - At a point in time | 5,672,206 | - | - | - | 5,672,206 |
| - Over time | 155,163 | 130,632 | 18,780 | (14,466) | 290,109 |
| | 5,827,369 | 130,632 | 18,780 | (14,466) | 5,962,315 |
| Net profit | 252,122 | 21,343 | 8,429 | (1,751) | 280,143 |

| | Sales and services | Consumer finance | Others | Intersegment eliminations | Total |
|---|---|---|---|---|---|
| Total assets | 2,186,652 | 781,266 | 8,684 | (47,136) | 2,929,466 |
| Total liabilities | 1,714,132 | 429,499 | 5,340 | (45,384) | 2,103,587 |

The Group management uses segment revenue and net profit to measure performance being the most relevant in evaluating the results of segments.

***b)*** *Geographical segments*

The geographical information below analyses the Group's revenue, net profit, total assets and total liabilities as follows:

**As at and for the year ended 31 December 2021**

| | Kingdom of Saudi Arabia | Others | Intersegment eliminations | Total |
|---|---|---|---|---|
| Revenue | | | | |
| - At a point in time | **4,967,770** | **427,451** | **-** | **5,395,221** |
| - Over time | **435,945** | **21,471** | **(19,009)** | **438,407** |
| | **5,403,715** | **448,922** | **(19,009)** | **5,833,628** |
| Net profit | **526,712** | **22,056** | **(151,934)** | **396,834** |
| Total assets | **4,488,394** | **253,652** | **(1,093,840)** | **3,648,206** |
| Total liabilities | **2,761,793** | **203,267** | **(309,411)** | **2,655,649** |

(All amounts in Saudi Riyals thousands unless otherwise stated)

**As at and for the year ended 31 December 2020**

| | Kingdom of Saudi Arabia | Others | Intersegment eliminations | Total |
|---|---|---|---|---|
| Revenue | | | | |
| - At a point in time | 5,234,111 | 438,098 | - | 5,672,209 |
| - Over time | 288,517 | 16,055 | (14,466) | 290,106 |
| | 5,522,628 | 454,153 | (14,466) | 5,962,315 |
| Net profit | 303,199 | 18,759 | (41,815) | 280,143 |
| Total assets | 3,157,586 | 208,655 | (436,775) | 2,929,466 |
| Total liabilities | 1,977,795 | 180,676 | (54,884) | 2,103,587 |

## 25 Related party transactions and balances

Related parties comprise the shareholders, directors, associated companies (representing entities which are directly or indirectly controlled by or under the significant influence of the Company's shareholders), and key management personnel. Related parties also include business entities in which certain directors or senior management have an interest (other related parties). As at 31 December 2021, Al Fozan Holding Company is the major shareholder of the Company with a shareholding of 29.7% (31 December 2020: 29.7%).

*(a) Following are the significant transactions entered into by the Group with its related parties:*

| Nature of transactions | Relationship | 2021 | 2020 |
|---|---|---|---|
| **Sales** | Major shareholder | **224** | 156 |
| | Associated companies | **243** | 225 |
| **Purchases** | Major shareholder | - | 5,250 |
| | Associated companies | **4,871** | 10,313 |
| **Rental income** | Associated companies | **1,512** | 2,704 |
| **Rent expense** | Associated companies | **1,776** | 1,929 |
| **Other expenses charged** | Associated companies | **1,172** | 1,312 |
| **Acquisition of property and equipment** | Associated companies | - | 510 |

The transactions are based on terms agreed as per underlying agreements between the Group and the respective related parties.

(All amounts in Saudi Riyals thousands unless otherwise stated)

*(b) Key management personnel compensation*

| | 2021 | 2020 |
|---|---|---|
| Salaries and other employee benefits | **24,179** | 20,490 |
| Board of Directors' fees | **2,468** | 2,471 |
| | **26,647** | 22,961 |

*(c) Due from related parties - associated companies and major shareholder*

| | 2021 | 2020 |
|---|---|---|
| United Homeware Company | **2,185** | 2,403 |
| Retal Urban Development Company | **24** | 3 |
| Al Fozan Holding Company | **22** | 1 |
| | **2,231** | 2,407 |

*(d) Due to related parties - associated companies*

| | 2021 | 2020 |
|---|---|---|
| Madar Hardware Company | **787** | 568 |
| Al Yassra Trading Co. | **31** | 31 |
| United Homeware Company | **-** | 2,249 |
| | **818** | 2,848 |

The above balances are receivable/payable based on the terms agreed as per the signed agreements between the Group and the respective related parties and do not bear any financial charges.

## 26 Earnings per share

| | 2021 | 2020 |
|---|---|---|
| Profit for the year attributable to the shareholders of the Company | **396,834** | 280,143 |

The weighted average number of shares used as the denominator are as follows:

| | 2021 | 2020 |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | **57,518,216** | 57,600,000 |
| Adjustment for treasury shares | **2,481,784** | 2,400,000 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | **60,000,000** | 60,000,000 |

| | | |
|---|---|---|
| **Earnings per share (Saudi Riyals)** | | |
| Basic earnings per share | **6.90** | 4.86 |
| Diluted earnings per share | **6.61** | 4.67 |

## 27 Employees' Stock Option Program

The Group has offered certain employees (the "Eligible Employees") the Option for equity ownership opportunities to attract and retain Eligible Employees and reward them for their role in achieving the Group's long-term goals. The program focuses on both current and future performance and enables participants to contribute towards the Group's success.

The program is entirely based on in-kind settlement where the Eligible Employees will receive the Company's shares upon completing the vesting period and achieving the performance measures set under the plan. The eligibility criteria includes a minimum number of years of service in the Group and maintaining excellent performance rating in addition to certain other factors. The vesting of the Option is dependent on meeting performance targets set by the Group along with the required period of stay in service by the Eligible Employees.

Under the terms of the plan, the Options will vest by the end of years from 2021 through 2023. Only employees that remain in service until the vesting dates of their respective Options, will become entitled to exercise the Options.

The ESOP is under the supervision of the Nomination and Remuneration Committee of the Board of Directors.

Under the ESOP, Options were granted on 19 September 2018 ("ESOP 2018), 1 January 2020 ("ESOP 2020) and 1 January 2021 ("ESOP 2021").

The total expense related to the program for the year ended 31 December 2021 amounting to Saudi Riyals 5.3 million (2020: Saudi Riyals 8.5 million) was charged to the employees' benefit expenses with a corresponding increase in the consolidated statement of changes in equity. During the year ended 31 December 2020, the Group modified the terms of the program that resulted in an additional share-based charge of Saudi Riyals 3.4 million computed using the Monte Carlo Simulation model.

The following table sets out the movements in share options (number of shares in thousands) during the year:

| | **Average exercise price per share option** | **2021** | **Average exercise price per share option** | **2020** |
|---|---|---|---|---|
| At 1 January | **41.02** | **2,270** | 40.04 | 1,848 |
| Granted during the year | **85.00** | **30** | 74.7 | 80 |
| Forfeited during the year | **45.32** | **(61)** | 40.04 | (36) |
| Adjustment for the capital increase | - | - | - | 378 |
| At 31 December | | **2,239** | | 2,270 |

| | **Average exercise price per share option** | **2021** | **Average exercise price per share option** | **2020** |
|---|---|---|---|---|
| Exercisable at the end of the year | **40.04** | **2,125** | - | - |

(All amounts in Saudi Riyals thousands unless otherwise stated)

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

| Grant date | Expiry date | Exercise price | Share options 2021 | Share options 2020 |
|---|---|---|---|---|
| 19 September 2018 | December 2027 | 40.04 | **2,125** | 2,174 |
| 1 January 2020 | June 2028 | 62.25 | **86** | 96 |
| 1 January 2021 | December 2028 | 85.00 | **28** | - |
| Total | | | **2,239** | 2,270 |

The fair value per Option is estimated at the grant date using the Black Scholes Merton pricing model, taking into account the terms and conditions upon which the share options were granted.

| | ESOP 2021 | ESOP 2020 | ESOP 2018 |
|---|---|---|---|
| **Inputs to the model:** | | | |
| Dividend Yield (%) | **5** | 5 | 5 |
| Expected Volatility (%) | **37** | 32.05 | 31.9 |
| Risk Free Interest Rate (%) | **1.9** | 2.13 | 3.23 |
| Contractual Life of Share Options (Years) | **8.0** | 8.5 | 9.3 |
| Share Price (Saudi Riyals) at Grant Date | **85.0** | 74.7 | 48.05 |
| Share Price (Saudi Riyals) at Grant Date (Adjusted for Capital increase) | **N/A** | 62.25 | 40.04 |
| Exercise Price (Saudi Riyals) at Grant Date | **85.0** | 74.7 | 48.05 |
| Exercise Price (Saudi Riyals) at Grant Date (Adjusted for Capital increase) | **N/A** | 62.25 | 40.04 |
| Exercise Price (Saudi Riyals) at Grant Date (if additional performance target met) | **N/A** | - | - |
| Fair Value per Option | **18.1** | 13.7 | 9.6 |
| Fair Value per Option (Adjusted for Capital increase) | **N/A** | 11.4 | 8 |
| Fair Value per Option (Adjusted for Capital increase and modified grant terms) | **N/A** | 13.4 | 9.4 |
| Remaining Contractual Life (Years) | **7.0** | 6.5 | 6 |

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the Options is indicative of future trends, which may also not necessarily be the actual outcome.

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 28 Financial risk management

### 28.1 Financial risk factors

The Group's activities expose it to a variety of financial risks including the effects of changes in market risk (including currency risk, profit risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the management under policies approved by the Board of Directors.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors is responsible for developing and monitoring the Group's risk management policies.

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 develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

*a) Market risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks - currency risk, profit rate risk and 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. The Group's transactions are principally in Saudi Riyals, United States Dollars (USD), United Arab Emirates Dirhams (AED), Omani Riyal (RO), Bahraini Dinar (BD), Canadian Dollars (CAD) and Euros (EUR). Since Saudi Riyal, AED, RO and BD are directly or indirectly pegged, management of the Group believes that the currency risk for the financial instruments related to AED, USD, RO and BD is not significant.

The fluctuation in exchange rates against Euro, AED and CAD are monitored on a continuous basis. Quantitative data regarding the Group's exposure to currency risk, expressed in Saudi Riyals, arising from currencies that are not pegged to USD was as follows:

| | EUR | CAD |
|---|---|---|
| **31 December 2021** | | |
| Cash and cash equivalents | 2 | - |
| Trade and other payables | 147 | 46 |
| Total | 149 | 46 |

| | EUR | CAD |
|---|---|---|
| **31 December 2020** | | |
| Cash and cash equivalents | 8 | - |
| Trade and other payables | 2,977 | 13 |
| Total | 2,985 | 13 |

The impact of reasonably possible change in the exchange rates on the Group's net profit before zakat and tax is not considered to be material.

*(ii)* *Profit rate risk*

Profit rate risk is the uncertainty of future earnings and expenses resulting from fluctuations in profit rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to profit rate adjustment within a specified period. The most important source of such risk is the Group's financing activities and long-term borrowings. As at the consolidated statement of financial position date, the Group has profit bearing financial assets of Saudi Riyals 1,213.3 million (31 December 2020: Saudi Riyals 802.9 million). However, the profit rates have been agreed with the respective customers upon inception of the Islamic financing contracts. Further, the Group also has variable profit bearing financial liabilities of Saudi Riyals 685.8 million (31 December 2020: Saudi Riyals 340.0 million) and had the profit rate varied by 1% with all the other variables held constant, total comprehensive income /loss for the year would have been approximately Saudi Riyals 5.6 million (31 December 2020: Saudi Riyals 4.8 million) higher / lower, as a result of lower / higher finance cost on variable rate borrowings.

The Group's trade receivables and payables carried at amortised cost are not subject to interest rate risk since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

*(iii)* *Price risk*

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group's financial assets and liabilities are not exposed to price risk.

*b)* *Credit risk*

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from investment in Islamic financing contracts, trade and other receivables and cash and cash equivalents.

Credit risk on related parties is considered minimal as management monitors and reconciles amounts due from related parties on a regular basis and recoverability is not considered to be doubtful.

The Group has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of the respective financial assets. The management analyses credit risk into the following categories of financial assets:

(All amounts in Saudi Riyals thousands unless otherwise stated)

### (i) Investment in Islamic financing contracts

Investment in Islamic financing contracts is generally exposed to significant credit risk. Therefore, the Group has established procedures to manage credit exposure including evaluation of customers' credit worthiness, formal credit approvals and assigning credit limits to avoid undue concentration of risks. At the inception of the contract, internal credit risk ratings are allocated to each exposure. These credit risk grades are defined using a variety of qualitative and quantitative factors including income levels, employment segment, nationality etc. The Group also has an effective installment monitoring system which allows it to identify potential problem accounts. An allowance for ECL is maintained at a level which, in the judgment of management, is adequate to provide for potential losses that can be reasonably anticipated.

The following table sets out information about the credit quality of investment in Islamic financing contracts as at 31 December. The amounts in the table represent gross carrying amounts.

| | Performing (Stage 1) | Under-performing (Stage 2) | Non-performing (Stage 3) | Total |
|---|---|---|---|---|
| **31 December 2021** | | | | |
| *Internal credit risk ratings* | | | | |
| Low risk | 713,653 | 4,839 | 18,393 | **736,885** |
| Medium risk | 643,238 | 14,772 | 80,307 | **738,317** |
| High risk | 364,820 | 6,649 | 23,918 | **395,387** |
| | **1,721,711** | **26,260** | **122,618** | **1,870,589** |

| | Performing (Stage 1) | Under-performing (Stage 2) | Non-performing (Stage 3) | Total |
|---|---|---|---|---|
| **31 December 2020** | | | | |
| *Internal credit risk ratings* | | | | |
| Low risk | 443,374 | 4,635 | 11,809 | 459,818 |
| Medium risk | 504,684 | 20,236 | 98,997 | 623,917 |
| High risk | 203,470 | 2,568 | 8,635 | 214,673 |
| | 1,151,528 | 27,439 | 119,441 | 1,298,408 |

The ageing analysis of net investment in Islamic financing contracts, based on due balances according to the contractual repayment schedules of the customers is as follows:

| | 2021 | 2020 |
|---|---|---|
| Not past due | **1,123,307** | 713,603 |
| Past due 1-30 days | **39,702** | 28,020 |
| Past due 31-90 days | **17,354** | 30,647 |
| Past due 91-180 days | **21,304** | 12,409 |
| Over 181 days | **70,515** | 66,005 |
| | **1,272,182** | 850,684 |
| Less: Impairment for financing contracts | **(59,154)** | (47,765) |
| Net investment in Islamic financing contracts | **1,213,028** | 802,919 |

**Measurement of ECL**

The Group applies the IFRS 9 general approach to measuring expected credit losses which uses a 12 month or lifetime expected loss allowance as applicable for investment in Islamic financing contracts. The Group's ECL model is sensitive to macroeconomic variables such as expected movements of oil prices and unemployment scenario weightings. Management evaluates changes in such macroeconomic factors on a periodic basis and has recognised the corresponding impact on the calculation of ECL as at 31 December 2021.

The assessment of credit risk in the net investment in finance leases and Islamic financing receivables requires further estimations of credit risk using ECL which is derived by PD, EAD and LGD.

The Group measures an ECL at a contract level considering the EAD, PD, LGD and discount rates. PD estimates are estimates at a certain date, based on the term structures as provided below. For LGD estimates, the Group uses present value of recoveries for loss accounts adjusted by the forward-looking information and further adjusts it in accordance with the Basel guidelines. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of both Tawarruq and Murabaha financing facilities is its gross carrying amount, without any due consideration given to collateral as such financing contracts are not collateralised. For discounting, the Group has used each contract's effective interest rate.

The Group's management believes that adequate provision has been made, where required to address the credit risk. Also see Note 13.

**a) Generating the term structure of PD**

PD measures the estimated likelihood of default over a time period. PD has been calculated as a probability that an exposure will move to more than 30 days past due in the next 12 months. "Through the cycle" default rates are calculated, which are later converted using scalar factors, which are then adjusted by the outlook of the economy to incorporate forward-looking information.

**b) Significant increase in credit risk**

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or efforts.

**c) Incorporation of forward-looking information**

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information from published sources, the Group formulates a forward-looking adjustment to PD term structures to arrive at forward-looking PD estimates across the lifetime using macroeconomic models. Management, based on its evaluation of the current situation and changes in multiple macroeconomic factors i.e. expected movements of oil prices and unemployment scenario weightings, has recognised the corresponding impact on the calculation of ECL as at 31 December 2021. The Group's ECL model continues to be sensitive to such macroeconomic variables and the Group continues to reassess its position.

(All amounts in Saudi Riyals thousands unless otherwise stated)

### d) Changes in assumptions including incorporation of forward-looking information

During the year ended 31 December 2021, the Group has incorporated unemployment weightage scenarios as an additional macro-economic forward looking information factor. There have been no significant changes to the underlying methodology and assumptions used for determination of ECL.

### (ii) Trade and other receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

The aging analysis for trade receivables is as follows:

| | **2021** | **2020** |
|---|---|---|
| Current | **17,628** | 25,085 |
| 0-90 days past due | **28,106** | 9,141 |
| 91-180 days past due | **190** | 328 |
| 181-365 days past due | **1,266** | 975 |
| Above 365 days past due | **1,777** | 1,367 |
| | **48,967** | 36,896 |

The average credit period on sales of goods is 30-90 days. No interest is charged on trade receivables. Before accepting any new customer, the Group has a credit policy set in place to assess the potential customer's credit quality and defines the credit limits. These procedures are reviewed and updated on an ongoing basis. At 31 December 2021, 74% of trade receivables were due from 1 customer (2020: 94% from 1 customer). Management believes that this concentration of credit risk is mitigated as the customer has established track record of regular and timely payments.

The expected loss rates are based on the payment profiles of sales over a period of 18 months before 31 December 2021 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the inflation rate to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. The Group does not hold any collateral as security.

The Group considers any trade receivables overdue for more than a year to be in default and are accordingly fully provided for. The loss rates for the other ageing buckets are not significant. The identified ECL on trade and other receivables is trivial and accordingly, no ECL has been recognised by the Group.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 365 days past due. Where receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in the profit or loss.

The other classes within trade and other receivables do not contain impaired assets and are also not exposed to significant credit risk. The maximum exposure to credit risk at reporting date is the carrying amount of each receivable.

(All amounts in Saudi Riyals thousands unless otherwise stated)

### (iii) Cash and cash equivalents

These are placed with banks having minimum credit ratings of BBB or better, and therefore are not subject to significant credit risk and accordingly, no ECL is recognised on cash and cash equivalents.

*c) Liquidity risk*

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

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. In addition, the Group has access to credit facilities as made available. Total unused credit facilities available to the Group as at 31 December 2021 were approximately Saudi Riyals 914.9 million (2020: Saudi Riyals 1,275.6 million) principally representing short-term loans, long-term loans and re-financing of letters of credit.

Cash flow forecasting is performed by the management which monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal ratio targets.

The table below summarises the Group's financial liabilities into the relevant maturity groupings based on the remaining contractual maturity period at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying amounts, as the ultimate amounts to be realised is not significantly different from the carrying amounts.

| | Less than one year | 1-2 years | 3-5 years | Above 5 years | Total |
|---|---|---|---|---|---|
| **31 December 2021** | | | | | |
| Trade and other payables | **930,590** | **-** | **-** | **-** | **930,590** |
| Borrowings | **181,334** | **357,276** | **173,516** | **4,004** | **716,130** |
| Lease liabilities | **64,298** | **143,887** | **197,326** | **449,644** | **855,155** |
| Total | **1,176,222** | **501,163** | **370,842** | **453,648** | **2,501,875** |
| **31 December 2020** | | | | | |
| Trade and other payables | 895,303 | - | - | - | 895,303 |
| Borrowings | 157,905 | 104,010 | 86,207 | 3,026 | 351,148 |
| Lease liabilities | 105,467 | 147,353 | 171,692 | 363,877 | 788,389 |
| Total | 1,158,675 | 251,363 | 257,899 | 366,903 | 2,034,840 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

*d) Capital risk management*

The Group's objectives when managing capital are to:

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- 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, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as borrowings divided by total capital. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus borrowings, which is analysed as follows:

| | **2021** | **2020** |
|---|---|---|
| Total equity | **992,557** | 825,879 |
| Borrowings | **685,798** | 220,000 |
| Total | **1,678,355** | 1,045,879 |
| Gearing ratio | **40.9%** | 21.0% |

The management and Board of Directors do not consider lease liabilities for the purpose of calculating its gearing ratio.

*e) Fair value estimation*

As at 31 December 2021 and 2020, the fair values of the Group's financial instruments are estimated to approximate their carrying values since the financial instruments are short term in nature, carry interest rates which are based on prevailing market interest rates and are expected to be realized at their current carrying values within twelve months from the date of the consolidated statement of financial position. The fair values of the non-current financial liabilities are estimated to approximate their carrying values as these carry interest rates which are based on prevailing market interest rates.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or liability, the Group uses observable market 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.

- 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).

(All amounts in Saudi Riyals thousands unless otherwise stated)

*f) Net debt reconciliation*

The net debt of the Group is as follows:

| | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | **(173,158)** | (184,763) |
| Lease liabilities | **552,045** | 535,960 |
| Borrowings | **685,798** | 340,000 |
| Total | **1,064,685** | 691,197 |

The Group's net debt reconciliation is as follows:

| | 1 January | Cash flows | Others | 31 December |
|---|---|---|---|---|
| **2021** | | | | |
| Cash and cash equivalents | **(184,763)** | **11,605** | **-** | **(173,158)** |
| Lease liabilities | **535,960** | **(86,848)** | **102,933** | **552,045** |
| Borrowings | **340,000** | **343,858** | **1,940** | **685,798** |
| **Net debt** | **691,197** | | | **1,064,685** |

| | 1 January | Cash flows | Others | 31 December |
|---|---|---|---|---|
| **2020** | | | | |
| Cash and cash equivalents | (102,972) | (81,791) | - | (184,763) |
| Lease liabilities | 554,405 | (54,634) | 36,189 | 535,960 |
| Borrowings | 400,000 | (50,978) | (9,022) | 340,000 |
| **Net debt** | 851,433 | | | 691,197 |

## 29 Financial instruments

Financial instruments held by the Group are classified into the following measurement categories:

| | 2021 | 2020 |
|---|---|---|
| **Assets carried at amortised cost as per statement of financial position** | | |
| Investment in Islamic financing contracts | **1,213,028** | 802,919 |
| Trade and other receivables | **73,099** | 63,253 |
| Cash and cash equivalents | **173,158** | 184,763 |
| **Total** | **1,459,285** | 1,050,935 |

| | 2021 | 2020 |
|---|---|---|
| **Liabilities carried at amortised cost as per statement of financial position** | | |
| Trade and other payables | **930,590** | 895,303 |
| Borrowings | **685,798** | 340,000 |
| Lease liabilities | **601,519** | 621,193 |
| **Total** | **2,217,907** | 1,856,496 |

For the purpose of the financial instruments disclosure, non-financial assets and non-financial liabilities amounting to Saudi Riyals 48.7 million and Saudi Riyals 184.8 million, respectively (2020: Saudi Riyals 34.0 million and Saudi Riyals 77.2 million, respectively) have been excluded from trade and other receivables and trade and other payables, respectively.

## 30 Dividends

The shareholders of the Company, in their general assembly meeting held on 29 April 2021, approved dividends of Saudi Riyals 2.0 per share, amounting to Saudi Riyals 120 million, for the second half of the year ended 31 December 2020, which were fully paid during the year ended 31 December 2021. (2020: Saudi Riyals 62.5 million for the second half of the year ended 31 December 2019).

During the year ended 31 December 2021, the Group's Board of Directors, in their meeting held on 11 July 2021, resolved to distribute cash dividends amounting to Saudi Riyals 120 million, for the first half of the year ended 31 December 2021, which were fully paid during the year. (2020: Saudi Riyals 60 million for the first half of the year ended 31 December 2020).

Dividends presented in the consolidated statement of changes in equity are net of dividends on treasury shares.

## 31 Contingencies and commitments

(i) At 31 December 2021, the Group was contingently liable for bank guarantees and letters of credit issued in the normal course of business amounting to Saudi Riyals 563.7 million (2020: Saudi Riyals 537.8 million).

(ii) The capital expenditure contracted by the Group but not yet incurred till 31 December 2021 was approximately Saudi Riyals 7.1 million (2020: Saudi Riyals 10.0 million).

## 32 Comparative figures

Certain amounts in the comparative consolidated statement of profit or loss and other comprehensive income have been appropriately presented to conform to the presentation for the year ended 31 December 2021.

These include the presentation of net impairment losses on financial assets, previously presented under selling and distribution expenses, amounting to Saudi Riyals 5.0 million, zakat expense amounting to Saudi Riyals 18.1 million and income tax expense amounting to Saudi Riyals 0.4 million as separate line items on the consolidated statement of profit or loss and other comprehensive income which were previously presented together as zakat and income tax expense. These reclassification restatements have had no impact on the gross profit, profit before zakat and income tax, net profit for the year or basic and diluted earnings per share for the year ended 31 December 2020, the consolidated statement of financial position as at 31 December 2020 and the consolidated statements of changes in equity and cash flows for the year ended 31 December 2020.