

BAWAN COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH INDEPENDENT AUDITOR'S REPORT**

BAWAN COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Bawan Company
(A Saudi Joint Stock Company)
Al-Riyadh, Kingdom of Saudi Arabia

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Opinion

We have audited the consolidated financial statements of Bawan Company - a Saudi Joint Stock Company (the "Company") and its subsidiaries (collectively referred as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2021, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Chartered Professional Accountants ("SOCPA").

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as 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 are independent of the Group in accordance with the professional code of conduct and ethics as 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The consolidated financial statements of the Group for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion dated March 8, 2021.

Key Audit Matter

Key audit matter is that matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current year. This matter was 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 this matter. For the matter listed below, our description on how our audit has addressed this matter is set below:

The key audit matter	How the matter was addressed
1- Impairment allowance for trade receivables as per requirements of IFRS 9	
As at December 31, 2021, the gross carrying amount of trade receivables amounted to SR 690.12 million (2020: SR 634.18 million) against which the Group recognized ECL allowance amounting to SR 92.08 million (2020: SR 83.76) in accordance with the requirements of IFRS 9, "Financial Instruments".	<p>We have performed the following procedures for assessing the impact on the impairment allowance of financial assets as per requirements of IFRS 9:</p> <ul style="list-style-type: none"> Evaluated the appropriateness of the application of expected credit loss model prepared, by the Management of the Group, for the relevant financial assets by understanding the nature of the financial assets and comparing the application to the requirements of the standard; Verified the data inputs in assessing the reasonableness of the probability of defaults (PDs) against source documents and information;
IFRS 9 requires "Expected Credit Loss" model (ECL) for the calculations of allowance for impairment of financial instruments including trade receivables. Management has applied a simplified expected credit loss ("ECL") model to determine the allowance for impairment of trade receivables.	

INDEPENDENT AUDITOR'S REPORT (Continued)

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To the Shareholders of
Bawan Company
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Key Audit Matter (Continued)

The key audit matter	How the matter was addressed
<i>1- Impairment allowance for trade receivables as per requirements of IFRS 9 (Continued)</i>	
<p>We considered this to be a key audit matter due to the level of significant judgments, estimates and assumptions used by the management in calculations of allowance for impairment of trade receivables.</p> <p>Refer to note 2.17, 4.2(b) and 11 to the consolidated financial statements for further information.</p>	<ul style="list-style-type: none"> • Tested key assumptions by comparing to the historical data; • Performed our independent assessment of impairment of trade receivables based on simplified approach and engaged our expert to provide further reliance on the assessment performed by us; and • Reviewed the adequacy of the Group's disclosures as presented in the accompanying consolidated financial statements in accordance with the applicable accounting standard.

Other Information included in the Group's 2021 Annual Report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when it becomes available 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 and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the Company's By-laws and the applicable requirements of the Company's Regulations, 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.

The Board of Directors of the Company are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the Shareholders of
Bawan Company
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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 ISAs as 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 ISAs as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 exist 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 disclosure in the consolidated financial statements or, if such disclosure is inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

INDEPENDENT AUDITOR'S REPORT (Continued)

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

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.

Al-Bassam & Co.
 PO Box 69658
 Riyadh 11557
 Kingdom of Saudi Arabia

Ibrahim Ahmed Al Bassam
 License No.337

Rajab 27, 1443H
 February 28, 2022



BAWAN COMPANY

(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**AS AT YEAR ENDED DECEMBER 31, 2021**

(ALL AMOUNTS ARE IN SAUDI RIYALS THOUSANDS UNLESS OTHERWISE STATED)

	Note	December 31, 2021	December 31, 2020
ASSETS			
Non-current assets			
Property, plant and equipment	5	709,840	730,759
Right-of-use assets	6.1	18,485	19,967
Goodwill	7	4,397	4,397
Intangible assets	8	5,722	8,401
Other assets		2,913	3,340
Total non-current assets		741,357	766,864
Current assets			
Inventories	9	661,505	609,864
Spare parts		27,867	28,081
Financial assets at fair value through profit or loss (FVTPL)	10	-	25,491
Trade and other receivables	11	690,786	644,850
Contract assets	12.1	40,932	22,161
Cash and cash equivalents	13	40,305	47,012
		1,461,395	1,377,459
Assets relating to disposal group classified as held for sale	23	-	84,009
Total current assets		1,461,395	1,461,468
TOTAL ASSETS		2,202,752	2,228,332
EQUITY AND LIABILITIES			
EQUITY			
Share capital	14	600,000	600,000
Statutory reserve	15	36,636	19,602
Foreign currency translation reserve		-	(2,167)
Retained earnings		102,877	75,084
Equity attributable to the owners of the Company		739,513	692,519
Non-controlling interests	22	50,389	62,900
Total equity		789,902	755,419
LIABILITIES			
Non-current liabilities			
Long-term borrowings	16	80,541	138,539
Lease liabilities	6.3	17,322	19,547
Employee defined benefit liabilities	17	85,562	85,088
Total non-current liabilities		183,425	243,174
Current liabilities			
Trade and other payables	18	483,449	464,841
Short-term borrowings	16	552,963	518,646
Current portion of long-term borrowings	16	64,994	117,891
Contract liabilities	12.2	56,209	56,019
Current portion of lease liabilities	6.3	2,724	2,434
Zakat payable	24	22,946	18,605
Dividends payable		46,140	359
		1,229,425	1,178,795
Liabilities relating to disposal group classified as held for sale	23	-	50,944
Total current liabilities		1,229,425	1,229,739
TOTAL LIABILITIES		1,412,850	1,472,913
TOTAL EQUITY AND LIABILITIES		2,202,752	2,228,332

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

BAWAN COMPANY

(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021**

(ALL AMOUNTS ARE IN SAUDI RIYALS THOUSANDS UNLESS OTHERWISE STATED)

	Note	2021	2020
Continuing operations			
Revenue	19, 25, 36	3,227,410	2,423,285
Cost of revenue	19	(2,801,938)	(2,081,420)
Gross profit		425,472	341,865
Selling and distribution expenses	26	(86,429)	(75,525)
General and administrative expenses	27	(128,585)	(106,735)
Expected credit loss (ECL) allowance on trade receivables	11	(16,560)	(31,203)
Gain on disposal of investments in financial assets at FVTPL	10	4,063	2,041
Fair value loss on investment in financial assets at FVTPL	10	-	(182)
Other income	28, 36	12,166	8,601
Profit before finance costs and zakat		210,127	138,862
Finance costs	29	(18,840)	(29,859)
Profit before zakat		191,287	109,003
Zakat	24	(19,111)	(16,003)
Profit from continuing operations		172,176	93,000
Loss from discontinued operation	23	(2,112)	(8,256)
Profit for the year		170,064	84,744
Other comprehensive income / (loss)			
<i>Item that will not be reclassified to profit or loss:</i>			
Remeasurement (loss) / gain on employee defined benefit liabilities	17.2	(1,476)	838
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translation of discontinued operation		-	(1,947)
Foreign currency translation reserve released on disposal of a foreign subsidiary	23	2,167	-
Other comprehensive income / (loss) for the year		691	(1,109)
Total comprehensive income for the year		170,755	83,635
Profit / (loss) for the year attributable to:			
Owners of the Company		170,342	90,168
Non-controlling interests	22	(278)	(5,424)
		170,064	84,744
Total comprehensive income / (loss) for the year attributable to:			
Owners of the Company		172,994	90,345
Non-controlling interests		(2,239)	(6,710)
		170,755	83,635
Total comprehensive income / (loss) for the year attributable to:			
Continuing operations		175,106	94,620
Discontinued operations		(2,112)	(4,275)
		172,994	90,345
Earnings per share for profit from continuing operations			
Basic and diluted	31	2.84	1.56
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic and diluted	31	2.84	1.50

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

BAWAN COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT YEAR ENDED DECEMBER 31, 2021
(ALL AMOUNTS ARE IN SAUDI RIYALS THOUSANDS UNLESS OTHERWISE STATED)

	Share capital	Statutory reserve	Foreign currency translation reserve	Retained earnings	Equity Attributable to the owners of the Company	Non- controlling interests	Total equity
January 1, 2021	600,000	19,602	(2,167)	75,084	692,519	62,900	755,419
Profit / (loss) for the year	-	-	-	170,342	170,342	(278)	170,064
Other comprehensive income / (loss) for the year	-	-	2,167	485	2,652	(1,961)	691
Total comprehensive income / (loss) for the year	-	-	2,167	170,827	172,994	(2,239)	170,755
Transfer to statutory reserve (note 15)	-	17,034	-	(17,034)	-	-	-
Derecognition of non-controlling interest on disposal of a foreign subsidiary (note 23)	-	-	-	-	-	(6,517)	(6,517)
Transactions with current owners in their capacity as owners:							
Dividends (note 38)	-	-	-	(126,000)	(126,000)	(3,755)	(129,755)
December 31, 2021	600,000	36,636	-	102,877	739,513	50,389	789,902
January 1, 2020	600,000	10,585	(1,351)	16,940	626,174	70,630	696,804
Profit / (loss) for the year	-	-	-	90,168	90,168	(5,424)	84,744
Other comprehensive income / (loss) for the year	-	-	(816)	993	177	(1,286)	(1,109)
Total comprehensive income / (loss) for the year	-	-	(816)	91,161	90,345	(6,710)	83,635
Transfer to statutory reserve (note 15)	-	9,017	-	(9,017)	-	-	-
Transactions with current owners in their capacity as owners:							
Dividends	-	-	-	(24,000)	(24,000)	(1,020)	(25,020)
December 31, 2020	600,000	19,602	(2,167)	75,084	692,519	62,900	755,419

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

BAWAN COMPANY

(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS**FOR THE YEAR ENDED DECEMBER 31, 2021**

(ALL AMOUNTS ARE IN SAUDI RIYALS THOUSANDS UNLESS OTHERWISE STATED)

	2021	2020
Cash flows from operating activities		
Profit before zakat:		
Continuing operations	191,287	109,003
Discontinued operations	(2,112)	(8,256)
Profit before zakat including discontinued operations	189,175	100,747
<i>Adjustments for:</i>		
Depreciation and amortization	73,226	78,476
ECL allowance on trade receivables	16,560	31,203
Net realizable value adjustment for inventories	8,915	8,450
Employees' end of service benefits cost	9,912	10,010
Finance costs	18,840	30,731
Fair value loss on financial assets at FVTPL	-	182
Gain on disposal of financial assets at FVTPL	(4,063)	(2,041)
Loss on disposal of a foreign subsidiary	2,112	-
(Gain) / loss on derecognition of lease liabilities	(802)	303
Provision for warranty	1,064	1,775
Loss on disposal of intangible assets	4	-
Gain on disposal of property, plant and equipment	(1,419)	(2,189)
<i>Operating cash flows before movements in working capital</i>	313,524	257,647
<i>Changes in working capital</i>		
Inventories	(60,556)	(113,509)
Spare parts	214	(799)
Trade and other receivables	(61,741)	39,261
Contract assets	(18,771)	12,498
Trade and other payables	17,578	36,898
Contract liabilities	190	22,347
<i>Cash generated from operations</i>	190,438	254,343
Finance charges paid	(19,824)	(28,463)
Zakat paid	(14,770)	(11,521)
Employee defined benefit liabilities paid	(12,879)	(6,383)
Net cash generated from operating activities	142,965	207,976
Cash flows from investing activities		
Purchase of property, plant and equipment	(47,353)	(51,798)
Purchase of intangible assets	(127)	(6)
Purchase of financial assets at FVTPL	(14,480)	(4,938)
Proceeds from disposal of financial assets at FVTPL	44,034	30,081
Proceeds from disposal of property, plant and equipment	2,105	4,267
Proceeds from disposal of a foreign subsidiary	22,517	-
Net cash generated from / (used in) investing activities	6,696	(22,394)
Cash flows from financing activities		
Proceeds from borrowings	1,031,495	1,026,153
Repayment of borrowings	(1,105,486)	(1,176,140)
Repayment of lease liabilities	(2,489)	(3,366)
Dividends paid	(80,817)	(23,999)
Dividends paid to non-controlling interests	(3,157)	(3,031)
Net cash used in financing activities	(160,454)	(180,383)
Net (decrease) / increase in cash and cash equivalents	(10,793)	5,199
Cash and cash equivalents at the beginning of the year	47,012	45,899
Cash and cash equivalents related to disposal group classified as held for sale at the beginning of the year	4,086	-
Cash and cash equivalents at the end of the year	40,305	51,098

Supplemental cash flow information (refer note 35.3)

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

BAWAN COMPANY

(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**FOR THE YEAR ENDED DECEMBER 31, 2021**

(ALL AMOUNTS ARE IN SAUDI RIYALS THOUSANDS UNLESS OTHERWISE STATED)

1. GENERAL INFORMATION

Bawan Company (“Bawan” or “the Company”) is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia (“KSA”) under Commercial Registration number 1010033032 dated Shawwal 9, 1400H (corresponding to August 20, 1980G). The Company’s shares are traded on the Saudi Stock Exchange (Tadawul).

The Group is mainly engaged in the manufacturing of metal and steel works, wooden pallets, plywood panels, boards and all work of carpentry and decorations, electrical transformers, packaged and unit substations, ready-mix and concrete products and production of flexible packaging and insulation products.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the “Group”) as at December 31, 2021.

The subsidiaries included in these consolidated financial statements are as follows:

Subsidiary	Principal activity	Location	Percentage of ownership (direct or indirect)	
			2021	2020
Bawan Engineering Industries Company (“Bawan Engineering”)	Intermediate holding company	KSA	100	100
<i>Subsidiaries of Bawan Engineering along with its ownership are as follows:</i>				
- United Transformers Electric Company-Saudi (“Utec-Saudi”)	Manufacturing of electrical products	KSA	85.50	85.50
- United Transformers Electric Company-Algeria (“Utec-Algeria”) *	-Same as above-	Algeria	-	49
- United Technology of Electric Substations & Switchgears Company (“USSG”)	-Same as above-	KSA	85.50	85.50
- Bawan Electric Company Limited (“Bawan Electric”) – under liquidation**	-Same as above-	KSA	100	100
Bawan Wood Industries Company (“Bawan Wood”)	Manufacturing of wood products	KSA	95	95
<i>Subsidiaries of Bawan Wood along with its ownership are as follows:</i>				
- Al-Raya Wood Works Establishment-UAE	-Same as above-	UAE	100	100
- Al-Raya Company for Wood Works-Kuwait	-Same as above-	Kuwait	100	100
- Inma Pallets Company Limited (“Inma Pallets”)	-Same as above-	KSA	100	100
- United Lines Logistics Services Company Limited (“ULLS”)	Logistic services	KSA	100	100
Bina Holding for Industrial Investments (“Bina Holding”)	Intermediate holding company	KSA	56.75	56.75
<i>Subsidiaries of Bina Holding along with its ownership are as follows:</i>				
- Bina Ready-Mix Concrete Products Company (“Bina Ready-Mix”)	Manufacturing of concrete products	KSA	100	100
- Bina Advanced Concrete Products Company (“Bina Precast”)	-Same as above-	KSA	93.20	93.20
- Al-Ahliyah Transport Company Limited	Dormant	KSA	100	100
- Total Building Company	-Same as above-	KSA	100	100
Bawan Metal Industries Company (“Bawan Metal”)	Manufacturing of metal products	KSA	100	100
Arnon Plastic Industries Company (“Arnon”)	Manufacturing of plastic packaging and insulation products	KSA	100	100
United Company for Wood and Metal Products (“United Wood and Metal”)	Manufacturing of wood/metal products	KSA	95	95

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED DECEMBER 31, 2021**

(ALL AMOUNTS ARE IN SAUDI RIYALS THOUSANDS UNLESS OTHERWISE STATED)

1. GENERAL INFORMATION (Continued)

* Based on the contractual arrangements between the Utec–Saudi and other shareholders, the Group had the majority of the voting rights. Therefore, the directors of the Group concluded that the Group had control over Utec–Algeria and accordingly Utec–Algeria was consolidated in these financial statements. However, as disclosed in note 23 to the consolidated financial statements, Utec-Algeria has been sold during 2021 at a value of US Dollars 7.09 million which is equivalent to SR 26.60 million (note 23).

** On 21 Rabi I, 1443 corresponding to October 27, 2021, the shareholders of Bawan Electric Company (BEC) resolved to voluntarily liquidate BEC and appoint a liquidator to carry out liquidation within 6 months of resolution date. Accordingly, on 21 Rabi I, 1443 corresponding to October 27, 2021, Dr. Abdullah Aljendi Law Firm, having license number 8592, Riyadh, Kingdom of Saudi Arabia, was appointed as liquidator of the BEC. Legal formalities related to the liquidation of BEC were under process as of December 31, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.1 Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) that are endorsed in KSA and other standards and pronouncements endorsed by the Saudi Organization for Chartered Professional Accountants (“SOCPA”).

The consolidated financial statements have been prepared under the historical cost convention except where IFRS requires other measurement basis as disclosed in the applicable accounting policies in note 2 of these consolidated financial statements.

2.2 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 ‘Inventories’ or value in use in IAS 36 ‘Impairment of Assets’, where applicable.

Valuation techniques

When measuring the fair value of an asset or a 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 within 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 assets or liability that are not based on observable market data (unobservable inputs). |

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries as at the reporting date. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses 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 listed above.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED DECEMBER 31, 2021**(ALL AMOUNTS ARE IN SAUDI RIYALS THOUSANDS UNLESS OTHERWISE STATED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.3 Basis of consolidation (Continued)**

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous stakeholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company 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 intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. These interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between:

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified by applicable IFRS).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 and, when applicable, the cost on initial recognition of an investment in an associate.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.4 Goodwill**

Goodwill arising on an acquisition of a business (being the excess of the aggregate of consideration transferred and the amount of any non-controlling interest in acquiree over the fair values of net assets acquired) is carried at cost as established at the date of acquisition of the business less accumulated impairment losses.

If the fair values of net assets acquired exceed the aggregate of consideration transferred and the amount of any non-controlling interest in acquiree, the resulting gain is recognized in profit or loss as a bargain purchase gain.

Goodwill is not amortized but is reviewed for impairment at least annually. 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 its 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 recognized directly in profit or loss. An impairment loss recognized 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.

2.5 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognized at their fair value with the exception of liabilities related to employee benefit arrangements which are recognized and measured in accordance with IAS 19 Employee Benefits.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.5 Business combinations (Continued)**

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

2.6 Foreign currency translation*(i) Functional and presentation currency*

The Group's consolidated financial statements are presented in Saudi Riyals (SR), which is also the Company's functional and Group presentation currency, and all values are rounded to the nearest thousands, except where otherwise indicated.

For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. On disposal of a foreign operation, any gain or loss that arises is transferred from consolidated statement of financial position to the consolidated statement of profit or loss and other comprehensive income.

(ii) Transactions and balances

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

Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss and other comprehensive income with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is classified to the consolidated statement of profit or loss and other comprehensive income. Repayment of intercompany loans are considered as disposal or partial disposal. Tax charges and credits, if any, attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

(iii) Group companies

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

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognized in the statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to consolidated statement of profit or loss and other comprehensive income.

2.7 Revenue recognition

The Group recognises revenue from the following major sources:

- Sale of various manufactured goods; and
- Construction of various bespoke items for customers

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognizes revenue when it transfers control of a product or provide service to a customer.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.7 Revenue recognition (Continued)***Sales of various manufactured goods*

Revenue on the sale of goods is recognized when the contractual promise to a customer (performance obligation) has been fulfilled by transferring control over the promised goods to the customer. Revenue is recognized at point in time of shipment or at the receipt of the goods by the customers.

A receivable is recognized by the Group when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Sales related warranties associated with goods cannot be purchased separately and they serve as an assurance that the products sold comply with agreed upon specifications. Accordingly, the Group accounts for warranties in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The Group has not raised a refund liability given the historically low level of returns in the past. It is considered highly probable that a significant reversal in the cumulative revenue recognized will not occur given the consistent low level of returns over previous years.

Construction of various bespoke items for customers

The Group constructs various bespoke items under contracts with its customers. Such contracts are entered into before construction of the items begins. Under the terms of the contracts, the Group has an enforceable right to payment for work done. The Group is unable to use the items for any other purpose.

Revenue from construction of these items is therefore recognized over time on output method as the Group fulfils the criteria under IFRS 15 "Revenue from contracts with customers". The management consider that this output method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15 Revenue from Contracts with Customers.

Contract assets comprise the value of work performed in excess of the amount billed as at the period end. Contract liabilities comprise, in addition to advances from customers, the excess amount billed over the value of work performed at the period end.

2.8 Costs and expenses*(i) Costs of revenue*

The costs incurred during the year, to produce the inventories that are sold, render the services and perform the contracts which includes direct and indirect cost of production, including direct labor, direct materials, depreciation and overheads are classified as cost of revenue.

(ii) Selling and distribution expenses

Selling and distribution expenses principally consist of costs incurred in the distribution and selling of the Group's products.

(iii) General and administrative expenses

General and administrative expenses include costs not specifically part of selling and distribution expenses, cost of revenue, finance charges or Zakat and income tax expense. Allocations between general and administrative expenses, selling and distribution expenses and cost of revenue, when required, are made on a consistent basis.

2.9 Employee benefits

The Group recognizes a liability when an employee has provided service in exchange for employee benefits to be paid in the future and an expense when the Group consumes the economic benefits arising from service provided by an employee in exchange for employee benefits. Employee benefits are short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits.

Short-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave, air tickets and sick leave that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service. The liability is recorded at the undiscounted amount of the benefits expected to be paid in exchange for that service.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.9 Employee benefits (Continued)***Employee defined benefit liabilities*

The end-of-service indemnity provision is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Re-measurements, comprising actuarial gains and losses, are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Re-measurements recognized in other comprehensive income are reflected immediately in retained earnings and will not be reclassified to profit or loss in subsequent periods. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs. Interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- interest expense; and
- re-measurements.

The Group presents the first two components of defined benefit costs in profit or loss in relevant line items.

Retirement benefits

Retirement benefits made to funded defined contribution plans in respect of Saudi employees are expensed when incurred.

2.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.11 Zakat and taxes*(i) Zakat and income tax***Companies with only Saudi shareholders**

The Group is subject to zakat in accordance with the regulations of the Zakat, Tax and Custom Authority (the "ZATCA"). A provision for zakat for the Company and zakat related to the Group's wholly owned subsidiaries is estimated at the end of each reporting period and charged to the consolidated statement of profit or loss and other comprehensive income. Differences, if any, at the finalization of final assessments are accounted for when such amounts are determined.

Mixed companies with foreign shareholders

The subsidiaries incorporated in KSA with foreign shareholders are subject to zakat for their Saudi shareholders and income tax for their foreign shareholders in accordance with the regulations of the ZATCA. A provision for zakat and income tax for the mixed companies is charged to the consolidated statement of profit or loss and other comprehensive income. Differences, if any, at the finalization of final assessments are accounted for when such amounts are determined.

Income tax for foreign entities is provided for in accordance with the relevant income tax regulations of the countries of incorporation. Adjustments arising from final foreign income tax assessments are recorded in the period in which such assessments are made.

Zakat and income tax related to the minority shareholders in certain subsidiaries is included in their share of non-controlling interest in the consolidated statement of profit or loss and other comprehensive income.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.11 Zakat and taxes (Continued)***(i) Zakat and income tax (Continued)*

The tax expense includes the current tax and deferred tax charge recognized in the consolidated statement of profit or loss and other comprehensive income. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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

The tax expense, if any, includes the current tax and deferred tax charge, if any, recognized in the consolidated statement of profit or loss and other comprehensive income.

Current tax payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction (other than in a business combination) that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, joint arrangements and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to the consolidated statement of profit or loss and other comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

(ii) Withholding tax

The Company and its local subsidiaries withhold taxes on certain transactions with non-resident parties in the KSA, as required under Saudi Arabian Income Tax Law.

(iii) Value added tax

Expenses and assets are recognized net of the amount of value added tax, except:

- when the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- when receivables and payables are stated with the amount of value added tax included. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.12 Property, plant and equipment**

Property, plant and equipment, except land and capital work-in-progress, are stated at cost less accumulated depreciation and accumulated impairment losses. Land and capital work-in-progress are stated at cost less impairment in value.

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

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes accounted for on a prospective basis.

The Group applies the annual depreciation rates in the following ranges to its property, plant and equipment:

	Percentage (%)
Buildings and leasehold improvement	3 – 20
Plant and machinery	5 – 25
Vehicles	20 – 25
Furniture, fixtures and office equipment	20 – 25
Tools	20 - 33.3

Land and capital work-in-progress are not depreciated.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.13 Leases

Leases are recognized as a right-of-use asset and a corresponding liability, at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis.

i) Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed 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.

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 (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.13 Leases (Continued)**

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

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

ii) Right-of-use assets

Right-of-use assets are initially measured at cost, comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Refundable security deposits are not included in the initial measurement of a right-of-use asset. However, the difference between the nominal amount of the refundable security deposits and its fair value at the commencement of the lease represents an additional lease payment which is prepaid and accordingly added to the initial carrying amount of the right-of-use asset and released to the consolidated statement of profit or loss and other comprehensive income over the lease term as part of the depreciation of that asset.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In addition, the right-to-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurement of lease liabilities.

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

Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Short-term and low value leases

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statement of profit or loss and other comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office equipment and furniture.

2.14 Other intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if any. The cost of intangible assets acquired in a business combination is their fair value at the effective date of the business combination. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are not amortized but are assessed annually for impairment and are stated at cost less accumulated impairment losses, if any.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.14 Other intangible assets (Continued)**

The Group applies the following annual rates of amortization to its intangible assets:

	<u>Percentage (%)</u>
Software	20
Customer relationships	20 – 29
Trade name	20

An intangible asset is derecognized upon disposal, or when no future economic benefits are expected to arise from the continued use of the asset. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

2.15 Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that non-financial assets may be impaired.

Non-financial assets other than goodwill, if any, are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, if any, is tested for impairment annually. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units 'CGUs'). Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management). When 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. Such impairment loss is recognized in the consolidated statement of profit or loss and other comprehensive income in the period it has occurred.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill, if any, may no longer exist or may have decreased. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. Such reversal is recognized in the consolidated statement of profit or loss and other comprehensive income. Impairment losses on goodwill, if any, are not reversible.

2.16 Inventories and spare parts

Inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

The cost of raw materials and consumable stores is determined on the weighted average basis. The cost of goods in transit is determined based on the invoice value plus other charges incurred in getting this inventory to its location at the reporting date. The cost of work-in-process and finished goods is determined on the weighted average basis which includes, inter alia, an allocation of labor and manufacturing overheads.

Spare parts which are consumable inventory are valued at lower of cost or net realizable value. Cost is determined on the weighted average cost method. An allowance for obsolete and slow-moving items, if any, is estimated at each reporting date. Net realizable value is the estimated selling price less cost to sell.

Spare parts may represent items that might result in fixed capital expenditure but are not distinguishable from consumables spare parts, hence these are classified under spare parts as current assets.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.17 Financial instruments***a) Initial recognition and measurement of financial instruments*

The Group initially recognizes financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument.

Where the trade receivables do not have a significant financing component, initial measurement is at their transaction price, which is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Except for trade receivables that do not have a significant financing component, initial measurement of the financial instrument is at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Business model assessment

The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

b) Financial assets - subsequent classification and measurement

Financial assets are subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss. There are two criteria used to determine how financial assets should be classified and measured:

- (i) the Group's business model for managing the financial assets; and
- (ii) the contractual cash flow characteristics of the financial asset.

Key management personnel have determined that the Group's financial assets are held within a business model whose objective is to hold financial assets in order to collect cash flows.

A financial asset is measured at amortized cost if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Otherwise, a financial asset is measured at fair value through profit or loss (FVTPL).

Investments in equity instruments are measured at fair value, and the Group did not elect to present in other comprehensive income subsequent changes in the fair value of such investment in an equity instrument.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.17 Financial instruments (Continued)***b) Financial assets - subsequent classification and measurement (Continued)*

Financial assets are only reclassified between measurement categories, when and only when, the Group's business model for managing them changes, which is expected to be uncommon.

The Group derecognizes a financial asset when the rights to the cash flows from the financial asset have expired or where the Group has transferred substantially all risks and rewards associated with the financial asset and does not retain control of the financial asset.

c) Impairment of financial assets

The Group assesses, on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost.

As required by IFRS 9, the Group applies the simplified approach for trade receivables and contract assets. The Group uses a provision matrix in the calculation of the expected credit losses on trade receivables and contract assets to estimate the lifetime expected credit losses, applying certain provision rates to respective aging buckets.

c) Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

d) Financial liabilities - subsequent classification and measurement

Financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

The Group derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

e) Cash and cash equivalents

For the purposes of the consolidated statements of financial positions and cash flows, cash and cash equivalents comprise cash on hand and deposits held with banks, all of which are available for use by the Group unless otherwise stated and have maturities of three months or less, which are subject to insignificant risk of change in values.

f) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legally enforceable right to offset the recognized amounts and intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.18 Borrowings**

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in the consolidated statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are extinguished 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 noncash assets transferred or liabilities assumed, is recognized in the consolidated statement of profit or loss and other comprehensive income as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.19 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Warranties

Provisions for the expected cost of warranty obligations under applicable sale of goods legislation are recognized at the date of sale of the relevant products, at the management's best estimate of the expenditure required to settle the Group's obligation.

2.20 Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the probability of an outflow of resources embodying economic benefits is remote. Liabilities which are probable are recorded in the consolidated statement of financial position under trade and other payables. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

2.21 Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period. Dividends are recorded in the consolidated financial statements in the year in which they are declared and approved by the shareholders of the Company.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.22 Segmental reporting**

A business segment is a group of assets, operations or entities:

- i) engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Group's other components;
- ii) the results of its operations are continuously analyzed by the group controller in order to make decisions related to resource allocation and performance assessment; and
- iii) for which financial information is discretely available.

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The details of Group's segments are presented in note 21 to these consolidated financial statements.

2.23 Non-current assets (or disposal group) held for sale and discontinued operations

Non-current assets (or disposal group) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, if any.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of profit or loss and other comprehensive income.

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3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**3.1 New standards, amendments to standards and interpretations**Amendments

A number of new amendments to standards, enlisted below, are effective this year but they do not have a material effect on the Group's consolidated financial statements, except for where referenced below.

New amendments to standards issued and applied effective in year 2021

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	January 1, 2021	These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.
IFRS 16	Amendments to IFRS 16 Leasing - Covid-19 Related Rent Concessions	April 1, 2021	This amendment extends the exemption from assessing whether a COVID-19-related rent concession is a lease modification for payments originally due on or before June 30, 2022 (rather than payment due on or before June 30, 2021).

3.2 New standards, amendments and revised IFRS issued but not yet effective

The Group has not applied the following new and revised IFRSs and amendments to IFRS that have been issued but are not yet effective.

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.

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3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**3.2 New standards, amendments and revised IFRS issued but not yet effective (Continued)**

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IFRS 16, IFRS 9, IAS 41 and IFRS 1	Annual Improvements to IFRS Standards 2018–2020	January 1, 2022	<p>IFRS 16: The amendment removes the illustration of the reimbursement of leasehold improvements.</p> <p>IFRS 9: The amendment clarifies that in applying the ‘10 per cent’ test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender. The amendment is to be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.</p> <p>IAS 41: The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value.</p> <p>IFRS 1: The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation difference.</p>
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022	The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Additionally, the amendments also clarify the meaning of ‘testing whether an asset is functioning properly’.
IFRS 3	Reference to the Conceptual Framework	January 1, 2022	The amendment as a whole updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework.
IFRS 17	Insurance Contracts	January 1, 2023	This is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 (along with its subsequent amendments) will replace IFRS 4-Insurance Contracts that was issued in 2005.
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023	The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of a liability would not impact its classification.

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3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**3.2 New standards, amendments and revised IFRS issued but not yet effective (Continued)**

IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	January 1, 2023	This amendment deals with assisting entities to decide which accounting policies to disclose in their financial statements
IAS 8	Amendment to definition of accounting estimate	January 1, 2023	This amendment clarifies the definition of accounting estimates to help entities to distinguish between accounting policies and accounting estimates.
IAS 12	Income taxes	January 1, 2023	This amendment deals with clarification regarding accounting of deferred tax on transactions such as leases and decommissioning obligations
Amendment to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's financial statements as and when they are applicable and adoption of these interpretations and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.

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4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Group's accounting policies, which are described in note 2, the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, that have most significant effects on the amounts recorded in the financial statements.

a) Revenue recognition for over time

The Group recognizes revenue from construction contracts over time, i.e. before the goods are delivered to the customer's premises. Progress is determined based on output method.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

a) Useful lives and residual values of property, plant and equipment and intangible assets

The Group's management estimates the useful lives of its property, plant and equipment and intangible assets for the purpose of calculating depreciation and amortization respectively. These estimates are determined after considering the expected usage of the asset or physical wear and tear for useful lives. Residual values are based on experience and observable data where available. These are disclosed in note 2 of these consolidated financial statements.

b) Impairment of trade and other receivables

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Trade accounts receivable are normally assessed collectively unless there is a need to assess a particular debtor on an individual basis (note 11).

c) Employee defined benefit liabilities

Employee defined benefit liabilities are determined using an actuarial valuation which requires estimates to be made of the various inputs such as discount rates, rate of salary increase, mortality rates and employment turnover. Changes in key assumptions can have a significant impact on the projected benefit liabilities and/or periodic employee defined benefit costs incurred (note 17).

d) Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

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5. PROPERTY, PLANT AND EQUIPMENT

	Note	Land	Building and leasehold improvement	Plant and machinery	Vehicles	Furniture, fixture and office equipment	Tools	Capital work- in progress (CWIP)	Total
<u>Cost</u>									
January 1, 2021		71,506	402,171	746,375	100,457	48,093	17,099	63,144	1,448,845
Additions during the year		-	2,480	6,296	9,856	1,608	316	26,797	47,353
Transfers from CWIP		-	2,563	28,541	1,393	327	-	(32,824)	-
Transfers to intangible assets	8	-	-	-	-	-	-	(65)	(65)
Disposals		-	-	(10,749)	(9,467)	(38)	(93)	-	(20,347)
December 31, 2021		71,506	407,214	770,463	102,239	49,990	17,322	57,052	1,475,786
<u>Accumulated depreciation and impairment</u>									
January 1, 2021		9,574	196,564	384,510	70,843	42,845	13,750	-	718,086
Charge for the year		-	17,402	39,428	7,903	2,336	452	-	67,521
Disposals		-	(866)	(10,690)	(8,027)	(32)	(46)	-	(19,661)
December 31, 2021		9,574	213,100	413,248	70,719	45,149	14,156	-	765,946
<u>Net book value</u>									
December 31, 2021		61,932	194,114	357,215	31,520	4,841	3,166	57,052	709,840

Certain items of property, plant and equipment amounting to SR 412.46 million as at December 31, 2021 (2020: SR 403.90 million) are mortgaged to secure the Saudi Industrial Development Fund ("SIDF") loans (note 16.5).

Capital work-in-progress mainly comprises building and leasehold improvement and items of plant and machinery in the course of construction and installation for certain Group subsidiaries.

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5. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Note	Land	Building and leasehold improvement	Plant and machinery	Vehicles	Furniture, fixture and office equipment	Tools	CWIP	Total
<u>Cost</u>									
January 1, 2020		71,506	382,592	740,727	98,746	46,555	16,914	139,809	1,496,849
Additions during the year		-	5,834	8,560	6,846	1,565	234	28,759	51,798
Transfers from CWIP		-	28,200	43,701	159	1,151	-	(76,468)	(3,257)
Disposals		-	(1,852)	(6,891)	(3,683)	(616)	(49)	(385)	(13,476)
Written off	35.1	-	(7,548)	(17,764)	-	(205)	-	-	(25,517)
Foreign exchange differences		-	(103)	(1,846)	(102)	(13)	-	-	(2,064)
Assets of disposal group classified as held for sale	23	-	(4,952)	(20,112)	(1,509)	(344)	-	(28,571)	(55,488)
December 31, 2020		71,506	402,171	746,375	100,457	48,093	17,099	63,144	1,448,845
<u>Accumulated depreciation and impairment</u>									
January 1, 2020		9,574	179,849	358,130	67,234	40,942	13,357	-	669,086
Charge for the year		-	20,421	42,438	6,294	2,788	461	-	72,402
Disposals		-	(1,603)	(6,880)	(2,254)	(612)	(49)	-	(11,398)
Written off	35.1	-	(1,740)	(7,083)	-	(197)	-	-	(9,020)
Assets of disposal group classified as held for sale	23	-	(363)	(2,095)	(431)	(76)	(19)	-	(2,984)
December 31, 2020		9,574	196,564	384,510	70,843	42,845	13,750	-	718,086
<u>Net book value</u>									
December 31, 2020		61,932	205,607	361,865	29,614	5,248	3,349	63,144	730,759

Capital work-in-progress mainly comprises building and leasehold improvement and items of plant and machinery in the course of construction and installation for certain Group's subsidiaries. 'Transfers from CWIP' amounting to SR 3.26 million during the year 2020 mainly relate to inventories which were capitalized in 2020 or in the prior years. The impact on cash flows from investing activities relating to these additions was accounted for in the prior years. Therefore, these were considered as non-cash items in cash flows information in the year 2020 (note 35.3).

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5. PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation charge on property, plant and equipment for the year has been allocated as follows:

	2021	2020
Cost of revenue	58,099	59,618
Selling and distribution expenses	2,770	3,036
General and administrative expenses	6,652	7,174
'General and administrative expenses' associated with discontinued operations	-	2,574
	67,521	72,402

6. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group leases certain of its premises. The lease term on the various leases is between 3 years and 25 years.

6.1 Movement of right-of-use assets is as follows:

	2021	2020
January 1	19,967	21,857
Add: Additions during the year	4,873	1,405
Less: derecognition of lease liabilities, net	(3,517)	(303)
Less: depreciation on right-of-use assets	(2,838)	(2,992)
December 31	18,485	19,967

6.2 The consolidated statement of profit or loss and other comprehensive income included the following amounts related to leases:

	Note	2021	2020
Depreciation on right-of-use assets		2,838	2,992
Accretion of finance costs under lease liabilities	29	778	809
		3,616	3,801

The Group also has certain leases with lease terms of 12 months or less and leases with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. The Group does not have any leases which contain variable lease payment terms.

6.3 Lease liabilities classified in the consolidated statement of financial position as at December 31 are as below:

	2021	2020
Non-current portion of lease liabilities	17,322	19,547
Current portion of lease liabilities	2,724	2,434
	20,046	21,981

The future minimum lease payments have been discounted, using an effective interest rate ranging from 2.5% to 4% per annum (2020: ranging from 3.5% to 4%), to their present values.

The Group's remaining contractual maturity for its lease liabilities have been disclosed in note 33.4.

The Group does not face a significant liquidity risk with regard to its lease liabilities, which are monitored to determine that these are settled in accordance with the relevant lease agreements.

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7. GOODWILL

The carrying amount of goodwill has been allocated to the following cash generating units:

	2021	2020
Arnon	4,066	4,066
Inma Pallets	331	331
	4,397	4,397

The Group performed its annual impairment tests as at December 31, 2021. The recoverable amounts of the above cash generating units were determined using a value-in-use calculation which incorporates cash flow projections for a five-year period based on budgets approved by the management. A discount rate of 8.85% per annum (2020: 10% per annum) is used to discount the future cash flows to present value.

8. INTANGIBLE ASSETS

	Note	Software	Customer relationships	Trade name	Total
Cost					
January 1, 2021		11,430	11,727	6,190	29,347
Additions		127	-	-	127
Transferred from property, plant and equipment	5	65	-	-	65
Disposals		(4)	-	-	(4)
December 31, 2021		11,618	11,727	6,190	29,535
Accumulated amortization					
January 1, 2021		11,430	7,019	2,497	20,946
Amortization		60	1,569	1,238	2,867
December 31, 2021		11,490	8,588	3,735	23,813
<u>Net book value</u>					
December 31, 2021		128	3,139	2,455	5,722
Cost					
January 1, 2020		11,430	11,727	6,190	29,347
Additions		6	-	-	6
Assets of disposal group classified as held for sale	23	(6)	-	-	(6)
December 31, 2020		11,430	11,727	6,190	29,347
Accumulated amortization					
January 1, 2020		11,176	5,450	1,238	17,864
Amortization		254	1,569	1,259	3,082
December 31, 2020		11,430	7,019	2,497	20,946
<u>Net book value</u>					
December 31, 2020		-	4,708	3,693	8,401

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9. INVENTORIES

	2021	2020
Raw materials	402,130	419,694
Finished goods	146,179	128,295
Work-in-process	51,180	32,422
Goods in transit	57,254	25,304
Consumables	4,762	4,149
	661,505	609,864
	2021	2020
Cost of inventories recognized as expense during the year	2,551,145	1,847,136
Carrying value of inventories held at net realizable value	89,740	17,796
Inventory written down during the year	8,915	8,450

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The movement in financial assets at FVTPL is set out below:

	2021	2020
January 1	25,491	48,775
Additions	14,480	4,938
Changes in fair value	-	(182)
Disposals	(39,971)	(28,040)
December 31	-	25,491

These financial instruments are mandatorily measured at fair value through profit or loss in accordance with the requirements of IFRS 9.

Fair values of these equity investments are determined based on the quoted market price available on the Saudi Stock Exchange, which is a Level 1 input in terms of IFRS 13 Fair Value Measurement.

Amounts recognized in consolidated statement of profit or loss and other comprehensive income for the year are as follows:

	2021	2020
Gains on disposal of financial assets at FVTPL	4,063	2,041
Fair value loss on financial assets at FVTPL	-	(182)
	4,063	1,859

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11. TRADE AND OTHER RECEIVABLES

	Note	2021	2020
Trade receivables			
Third parties		608,162	541,931
Retention receivables		15,355	17,765
Related parties	19	66,604	74,480
		690,121	634,176
Less: ECL allowance		(92,080)	(83,764)
		598,041	550,412
Advances to suppliers		38,093	38,811
Insurance claim receivable	35.1	23,406	17,688
Prepaid expenses and other assets		18,589	17,779
Amounts due from employees		6,803	5,596
Due from related parties	19	3,179	5,171
Refundable value added tax, net		-	1,010
Cash margins for letters of credit		-	814
Other receivables		2,675	7,569
		690,786	644,850

The Group's average credit period on sales of goods is up to 90 days. No interest is charged on outstanding trade receivables.

The Group considers that default can occur when a financial asset or debtor is past due by more than the average credit limit of 90 days and in this case, debtors are segregated into various categories keeping in view the nature of debtors, their past track records and any other relevant and applicable information. Accordingly, the Group defines the default for each category of debtor based on delay in payment beyond the allowed average credit limit unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

However, based on the historical collection pattern, the management considers that a customer will fall in default and credit impaired category after one year of past due balance. Accordingly, the management believes that the balances within one year of past due will result not in material amount of credit loss.

The following table shows the lifetime ECL allowance that has been recognized against gross trade receivables representing each segment in accordance with the simplified approach set out in IFRS 9:

	Metal and Wood	Plastic	Electrical	Concrete	Total
December 31, 2021					
Gross trade receivables	383,264	80,884	75,739	68,275	608,162
Less: ECL allowance	(46,301)	(10,731)	(19,348)	(15,700)	(92,080)
Net trade receivables	336,963	70,153	56,391	52,575	516,082
December 31, 2020					
Gross trade receivables	322,953	83,783	66,130	69,065	541,931
Less: ECL allowance	(38,843)	(9,094)	(25,327)	(10,500)	(83,764)
Net trade receivables	284,110	74,689	40,803	58,565	458,167

The following table shows the movement in lifetime ECL that been recognized for trade receivables in accordance with the simplified approach set out in IFRS 9:

	2021	2020
January 1	83,764	67,141
ECL allowance	16,560	31,203
Written-off	(8,244)	(14,580)
December 31	92,080	83,764

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11. TRADE AND OTHER RECEIVABLES (Continued)

The change in the loss allowance during the year was mainly due to change in credit risks as the receivable balances progressed through successive stages of delinquency to write off.

The following table shows the ECL by gross trade receivables aging:

	Not past due	Days past due					Total
		1-180	181-360	361-720	721-1080	>1080	
2021							
Gross trade receivables	377,292	108,748	12,314	12,364	20,900	76,544	608,162
Less: ECL allowance	(1,132)	(471)	(786)	(5,070)	(13,558)	(71,063)	(92,080)
Net trade receivables	376,160	108,277	11,528	7,294	7,342	5,481	516,082
Average loss rates (%)	0.30	0.43	6.38	41.01	64.87	92.84	15.14

	Not past due	Days past due					Total
		01-180	181-360	361-720	721-1080	>1080	
2020							
Gross trade receivables	313,714	85,477	20,765	30,648	21,947	69,380	541,931
Less: ECL allowance	-	(255)	(582)	(18,665)	(14,711)	(49,551)	(83,764)
Net trade receivables	313,714	85,222	20,183	11,983	7,236	19,829	458,167
Average loss rates (%)	-	0.30	2.80	60.90	67.03	71.42	15.46

Out of total gross trade receivables, receivables amounting to SR 97.13 million have been assessed individually on a case-by-case basis (2020: SR 104.06 million) which mainly comprised customers under litigation amounting to SR 67.64 million (2020: SR 74.90 million), customers under collection agreements amounting to SR 14.91 million (2020: SR 18.08 million) and customers individually assessed under miscellaneous categories amounting to SR 14.58 million (2020: SR 11.08 million). Accordingly, the management based on their judgement and best estimate, recognized an ECL allowance for customers under litigation, customers under collection agreement and customers individually assessed under miscellaneous categories amounting to SR 61.78 million (2020: SR 54.63 million), SR 1.01 million (2020: SR 0.43 million) and SR 8.18 million (2020: SR 11.08 million) respectively. The overall loss rate on balances against customers under litigation, customers under collection agreement and customers individually assessed under miscellaneous categories is 91.34% (2020: 58.1%), 6.77% (2020: 2.4%) and 56.10% (2020: 100%) respectively.

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12. CONTRACT ASSETS AND CONTRACT LIABILITIES**12.1 Contract assets**

Contract assets comprise the value of work performed in excess of the amount billed as at the year end arising entirely from construction contracts for sale of various bespoke items to the customers. Any amount previously recognized as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

Movement in contract assets is as follows:

	2021	2020
January 1	22,161	34,659
Unbilled revenue recognised during the year	92,280	95,321
Revenue billed during the year	(73,509)	(107,819)
December 31	40,932	22,161

12.2 Contract liabilities

	2021	2020
Advances from customers	54,620	55,018
Billings in excess of revenue recognized	1,589	1,001
	56,209	56,019

The transaction price allocated to unsatisfied performance obligations at December 31, 2021 amounted to SR 56.21 million (December 31, 2020: SR 56.02 million) which comprise mostly of sales of goods.

Management expects that a significant portion of the contract liabilities of SR 56.21 million (December 31, 2020: SR 56.02 million) will be recognized as revenue in the next financial year.

Contract liabilities of SR 46.50 million (December 31, 2020: 21.39 million) raised in prior year were recognized as revenue in the current year. All of this amount related to the sale of goods. There was no revenue recognized in the current reporting year that related to performance obligations which were satisfied in prior year.

13. CASH AND CASH EQUIVALENTS

	Note	2021	2020
Cash at bank		39,650	50,238
Cash in hand		655	860
		40,305	51,098
Cash and cash equivalents of disposal group classified as held for sale	23	-	(4,086)
		40,305	47,012

For the purpose of consolidated statement of cash flow for the year ended December 31, 2020, cash and cash equivalents at the end of the year also include cash and cash equivalents of 'disposal group classified as held for sale' (note 23).

14. SHARE CAPITAL

The Company had 60 million authorized, issued and fully paid ordinary shares with a nominal value of SR 10 per share as at December 31, 2021 and 2020 amounting to total share capital of SR 600 million as at December 31, 2021 and 2020.

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15. STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies and the Company By-Laws, the Company has established a statutory reserve by the appropriation of 10% of its annual net profit, until such reserve equals 30% of the share capital. The reserve is not available for dividend distribution.

16. BORROWINGS

16.1 Borrowings consist of the following:

	Current	Non-current	Total
2021			
Short-term borrowings	552,963	-	552,963
Long-term borrowings			
Term loans payable to banks	38,857	70,786	109,643
SIDF loans	26,137	9,755	35,892
	64,994	80,541	145,535
	617,957	80,541	698,498
	Current	Non-current	Total
2020			
Short-term borrowings	518,646	-	518,646
Long-term borrowings			
Term loans payable to banks	54,171	118,085	172,256
SIDF loans	63,720	20,454	84,174
	117,891	138,539	256,430
	636,537	138,539	775,076

The financing facilities agreements obtained by the Group are in accordance with the terms of Islamic financing.

16.2 Movement of borrowings for the current year is as follows:

	Note	Short term borrowings	Long term borrowings	Total
January 1, 2021		518,646	256,430	775,076
Receipts		1,031,495	-	1,031,495
Repayments		(998,993)	(111,223)	(1,110,216)
Debt arrangement costs		-	328	328
		551,148	145,535	696,683
Accrued finance cost		1,815	-	1,815
December 31, 2021		552,963	145,535	698,498
January 1, 2020		658,275	310,161	968,436
Receipts		1,011,690	14,463	1,026,153
Repayments		(1,103,408)	(72,732)	(1,176,140)
Reclassified to long-term borrowings		(35,055)	35,055	-
Debt arrangement costs		-	328	328
Borrowings of disposal group classified as held-for-sale	23	(17,586)	(30,845)	(48,431)
		513,916	256,430	770,346
Accrued finance cost		4,730	-	4,730
December 31, 2020		518,646	256,430	775,076

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16. BORROWINGS (Continued)**16.3 Short-term borrowings**

The Group has obtained bank facilities ("the Facilities") in the form of short-term loans, Islamic Murabaha, forward exchange contracts and letters of credit and guarantee. The Facilities carry interest at prevailing market rates and are secured by promissory notes and corporate guarantees of the Group.

16.4 Term loans payable to banks

The Group has obtained bank loans from local banks which are repayable in quarterly/semi-annual installments. The loans carry interest at prevailing market rates and are secured by promissory notes and corporate guarantees of the Group.

16.5 SIDF loans

The Group has obtained various loans from SIDF for the construction and expansion of its concrete and plastic segment plants. These loans are guaranteed by promissory notes, corporate guarantees of the Group and mortgages of property, plant and equipment with a carrying value of SR 412.46 million as at December 31, 2021 (2020: SR 403.90 million) (note 5).

Certain borrowings require the maintenance of debt covenants. As at December 31, 2021 and 2020, none of the conditions require to cause the loans to be payable on demand by the loan agreements.

17. EMPLOYEE DEFINED BENEFIT LIABILITIES**17.1 Defined contribution plan**

The Group makes contributions for a defined contribution retirement benefit plan to the General Organization for Social Insurance in respect of its Saudi employees. The total amount expensed during the year in respect of this plan was SR 6.34 million (December 31, 2020: SR 5.16 million).

17.2 Defined benefit obligation – employees' end of service termination benefits obligation

The Group operates a termination benefit plan in line with the Labor Law requirement in the Kingdom of Saudi Arabia for each of the respective subsidiary entities. The end of service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labor Law of the Kingdom of Saudi Arabia.

Employees' end of service termination benefits obligation are unfunded plans and the benefit payment obligations are met when they are due.

	Note	2021	2020
January 1		85,088	79,780
Current service cost	30	9,912	10,010
Interest cost	29	1,931	2,564
Total amount recognised in profit or loss		11,843	12,574
Payments		(12,879)	(6,383)
Benefits payable at the year end		34	(45)
Financial assumptions		(2,997)	(547)
Experience adjustments		4,473	(291)
Loss / (gain) attributable to the re-measurements of actuarial assumptions:		1,476	(838)
December 31		85,562	85,088

Actuarial valuations were performed by an independent qualified actuary using the projected unit credit method.

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17. EMPLOYEE DEFINED BENEFIT LIABILITIES (Continued)

Movements in the employee defined benefit obligations arising from current service cost and interest cost are recognized in profit or loss. However, re-measurement gains or losses arising from changes in actuarial assumptions are recognized as other comprehensive income / (loss). The principal assumptions used for the purpose of the actuarial valuations were approximately as follows:

	2021	2020
Discount rate	2.50%	2.30%
Average rate of salary increase	2.25%	2.25%
Rate of employee turnover	Moderate	Moderate
Mortality rates (WHO)	SA19-75%	SA16-75%

The weighted average duration of the defined benefit obligation of the Group is 10 years (2020: 11.42 years).

The actuary increased the discount rate in 2021 to reflect the changes in applicable market yields.

17.3 Sensitivity analysis

The sensitivity analysis presented below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. A positive amount represents an increase in the liability whilst a negative amount represents a decrease in the liability.

	2021	2020
Increase in discount rate by 0.5%	(3,452)	(4,284)
Decrease in discount rate by 0.5%	3,719	4,684
Increase in rate of salary increase by 0.5%	3,103	4,064
Decrease in rate of salary increase by 0.5%	(2,915)	(3,766)

18. TRADE AND OTHER PAYABLES

	Note	2021	2020
Trade payables			
-Third parties		384,202	390,436
-Related parties	19	12,768	5,174
		396,970	395,610
Employee related accruals		41,430	33,240
Due to related parties	19	702	175
Accrued commission		1,935	2,703
Board and committee members compensation	19	2,169	2,169
Value added tax payable, net		10,628	-
Warranty provisions	18.1	2,270	2,622
Other payables and accruals		27,345	28,322
		483,449	464,841

Trade and other payables are unsecured and are usually paid within 30 to 90 days from recognition.

18.1 The movement in the warranty provision is as follows:

	2021	2020
January 1	2,622	1,019
Raised during the year	1,064	1,775
Utilized during the year	(1,416)	(172)
December 31	2,270	2,622

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19. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties mainly represent shareholders, affiliates, subsidiary companies, key personnel and entities controlled or significantly influenced by such parties. During the year, the Group mainly had transactions with the following related parties:

<u>Name</u>	<u>Relationship</u>
Al Fozan Group of Companies	Shareholder/ Affiliate
Al Muhaidib Group of Companies	Shareholder/ Affiliate
WTC Investment Pty. Limited (Australia)	Affiliate

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its other related parties are disclosed below:

Nature of transactions	Note	2021	2020
Revenue		225,225	213,783
Purchases		51,408	23,992
Royalties	26	1,100	849
Short-term lease charges		405	405
Management fee and commission paid		238	200

The following balances were outstanding with related parties at the reporting date:

	Note	2021	2020
Trade receivables	11	66,604	74,480
Non-trade receivables	11	3,179	5,171
Trade payables	18	12,768	5,174
Non-trade payables	18	702	175
Board and committee members compensation payable	18	2,169	2,169

The amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given to the related parties and no ECL allowance has been provided for in the current year in respect of amounts due from related parties since no significant balance has been considerably past due.

During the year, short-term and long-term employment benefits to the Company's key management personnel amounted to SR 4.66 million (December 31, 2020: SR 4.47 million). Key management personnel include directors and key executives at the Group level.

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20. CAPITAL COMMITMENTS AND CONTINGENCIES

The Group had capital commitments of SR 12.96 million (December 31, 2020: SR 1.50 million) and contingencies in the form of letters of credit and guarantee of SR 738.43 million (December 31, 2020: SR 693.21 million) at the reporting date.

21. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"), i.e. the Board of Directors.

Information reported to the CODM for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The directors of the Company have chosen to organise the Group around differences in internal reporting structure. The Group's operating segments are as follows:

- **Metal and Wood** The segment is engaged in the production of wooden pallets, plywood panels and boards, medium and high density coated in decoration paper, platforms, wooden bowls and boxes, premade hangars and steel buildings and forming and bending rebars, general contracting (repair, demolition, rebuilding, construction) of residential, commercial and public buildings, educational recreational and health facilities, maintenance, operation and installation of equipment, devices and electrical and electronic systems, aluminum works, iron and wood doors and their installation, electrical extension works, carpentry, painting, drawing on iron and wood, roads, bridges and street works and all acts of carpentry and decorations.
- **Plastic** The principal activities of the segment are the production of plates and polystyrene foam, packaging and insulation slices from polyethylene foam, soft colored polyvinyl chloride sheets, rigid colored and non-colored Polyvinyl Chloride sheets, soft and hard Polyvinyl Chloride sheets padded by polystyrene and parts for vacuum fans, transparent containers of PET polyethylene, polyethylene bottles, PET preforms and their covers.
- **Electrical** The principal activities of the segment are wholesale and retail of electric transformers, voltage stabilizers, battery chargers, welding caustics, electric substations, electric station equipment and voltage transformers, trading and distribution, import and export, testing and inspection services, goods and commodities clearance and double-weight services in addition to acquiring shares in other companies.
- **Concrete** The principal activities of the segment are production of ready-mix, concrete products, investing in companies in addition to commercial services of export and marketing for third parties, repair and maintenance of laboratory tools and equipment, machines, industrial, electrical and non-electrical equipment and desalination and sewage plants, electrical and mechanical works.
- **Other** Other segment is a residual segment and comprises of Bawan Company representing only the holding company (i.e. head office) and associated activities carried out at the head office level.

The Group's consolidated balances by business segments were as follows:

	Metal and Wood	Plastic	Electrical	Concrete	Other	Total
<u>December 31, 2021</u>						
Total revenue	2,238,544	364,951	448,871	175,044	-	3,227,410
Profit / (loss) for the year	155,738	48,117	7,112	(18,085)	(22,818)	170,064
Total assets	971,270	550,494	391,603	250,907	38,478	2,202,752
Total liabilities	487,003	352,524	302,204	172,547	98,572	1,412,850
<u>For the year ended December 31, 2021</u>						
Segment revenues	2,238,544	365,830	448,871	175,044	-	3,228,289
Intersegment revenues	-	(879)	-	-	-	(879)
External revenues	2,238,544	364,951	448,871	175,044	-	3,227,410

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21. SEGMENT INFORMATION (Continued)

	Metal and Wood	Plastic	Electrical	Concrete	Other	Total
<u>December 31, 2021</u>						
Segment assets	971,270	551,113	391,848	250,907	61,797	2,226,935
Consolidation adjustments	-	(619)	(245)	-	(23,319)	(24,183)
Total assets	971,270	550,494	391,603	250,907	38,478	2,202,752
Segment liabilities	490,053	352,613	302,897	190,716	98,572	1,434,851
Consolidation adjustments	(3,050)	(89)	(693)	(18,169)	-	(22,001)
Total liabilities	487,003	352,524	302,204	172,547	98,572	1,412,850

	Metal and Wood	Plastic	Electrical	Concrete	Other	Total
<u>December 31, 2020</u>						
Total revenue	1,639,943	262,884	341,902	178,556	-	2,423,285
Profit / (loss) for the year	124,614	15,737	(40,497)	369	(15,479)	84,744
Total assets	915,618	577,445	401,008	260,577	73,684	2,228,332
Total liabilities	482,046	427,733	335,818	153,755	73,561	1,472,913

**For the year ended December
31, 2020**

Segment revenues	1,639,943	263,321	341,902	178,556	-	2,423,722
Intersegment revenues	-	(437)	-	-	-	(437)
External revenues	1,639,943	262,884	341,902	178,556	-	2,423,285

December 31, 2020

Segment assets	915,618	577,453	401,008	260,577	120,772	2,275,428
Consolidation adjustments	-	(8)	-	-	(47,088)	(47,096)
Total assets	915,618	577,445	401,008	260,577	73,684	2,228,332
Segment liabilities	485,716	427,766	359,975	171,590	73,561	1,518,608
Consolidation adjustments	(3,670)	(33)	(24,157)	(17,835)	-	(45,695)
Total liabilities	482,046	427,733	335,818	153,755	73,561	1,472,913

The majority of the Group's operating assets and principal markets of activity are located in the Kingdom of Saudi Arabia.

In 2020, the electrical segment also included the financial and operational results of subsidiary classified as "disposal group held for sale". This subsidiary has been sold during the year. Refer to the note 23 for further details.

No single customer contributed 10 percent or more to the Group's revenue in either 2021 or 2020.

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22. NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests as at December 31:

Subsidiary	Percentage of Non-controlling interest	Accumulated non-controlling interests		Profit / (loss) attributable to non-controlling interests	
		2021	2020	2021	2020
Utec-Saudi and its subsidiary	14.50	13,011	18,325	(252)	(7,091)
Bina Holding and its subsidiaries	43.25	22,361	33,917	(1,400)	122
Others		15,017	10,658	1,374	1,545
		50,389	62,900	(278)	(5,424)

The subsidiaries individually detailed above are incorporated and operate in Saudi Arabia, except for Utec-Algeria which was presented as “disposal group classified as held for sale” as on December 31, 2020 as disclosed in note 23. Others include subsidiaries wherein non-controlling interests are within the range of 5% to 14.5% and which are not significant to the consolidated financial statements as a whole.

Summarized consolidated financial information in respect of each of the Group’s subsidiaries that has material non-controlling interests is set out below. The summarized consolidated financial information below represents amounts before intragroup eliminations.

Summarized statement of financial position

	Utec-Saudi and its subsidiary		Bina Holding and its subsidiaries	
	2021	2020	2021	2020
Non-current assets	41,384	45,256	101,998	103,838
Current assets	319,614	369,719	151,242	156,866
Non-current liabilities	16,372	15,652	23,436	20,531
Current liabilities	247,102	299,740	161,671	148,220

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22. NON-CONTROLLING INTERESTS (Continued)**Summarized statement of profit or loss and other comprehensive income**

	Note	Utec-Saudi and its Subsidiary		Bina Holding and its Subsidiaries	
		2021	2020	2021	2020
Revenue		340,554	256,419	175,044	177,862
Expenses, net		(342,290)	(271,421)	(193,129)	(177,498)
Loss from discontinued operations	23	-	(8,256)	-	-
(Loss) / profit for the year		(1,736)	(23,258)	(18,085)	364
(Loss) / profit attributable to:					
Owners of the company		(1,484)	(19,047)	(16,685)	728
Non-controlling interests		(252)	(4,211)	(1,400)	(364)
(Loss) / profit for the year		(1,736)	(23,258)	(18,085)	364

Other comprehensive (loss) / income attributable to

Owners of the company	6,018	(2,025)	(2,778)	191
Non-controlling interests	213	(54)	(2,358)	151
Other comprehensive income for the year	6,231	(2,079)	(5,136)	342

Summarized statement of cash flows

	Utec-Saudi and its Subsidiary		Bina holding and its Subsidiaries	
	2021	2020	2021	2020
Cash (used in) / generated from operating activities	(66,490)	19,661	40,753	15,166
Cash generated from / (used in) investing activities	20,641	(9,345)	(13,497)	(3,770)
Cash generated from / (used in) financing activities	28,461	1,758	(32,142)	(13,076)
Net (decrease) / increase in cash and cash equivalents for the year	(17,388)	12,074	(4,886)	(1,680)

23. DISPOSAL OF A FOREIGN SUBSIDIARY

On January 31, 2021, the Group announced that one of its subsidiaries (Utec-Saudi) had entered into a contract to sell its entire equity stake in Utec-Algeria for a value of US Dollars 8 million (equivalent to SR 30 million). Accordingly, assets and liabilities of Utec-Algeria were classified as disposal group held for sale as on December 31, 2020. The sale was subject to all regulatory approvals from the relevant authorities. Effective from the beginning of the year, the Group lost control over Utec-Algeria, and the sale transaction was completed with a revised value of US Dollars 7.09 million (equivalent to SR 26.60 million) and accordingly net assets related to the disposal group held for sale have been derecognized resulting in a net loss of SR 2.11 million, including the foreign currency translation reserve amounting to SR 2.17 million which has been realized and transferred to the consolidated statement of profit and loss and other comprehensive income.

In the consolidated statement of cash flows, sales proceeds have been presented net off with cash and cash equivalents of SR 4.09 million held by Utec-Algeria. Details of net loss on disposal of a foreign subsidiary is as follows:

	As at January 1, 2021
Consideration received	26,603
Net value of net assets of a foreign subsidiary (note 23.2)	(26,548)
Gain before realization of foreign currency translation reserve	55
Realization of foreign currency translation reserve	(2,167)
Net loss on disposal of a foreign subsidiary	(2,112)

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23. DISPOSAL OF A FOREIGN SUBSIDIARY (Continued)

23.1 Financial performance and cash flows for the year 2020 are as follows:

	2020
Revenue	7,793
Expenses	(16,049)
Net loss	(8,256)
Exchange differences on translation	(1,947)
Other comprehensive loss from discontinued operation	(1,947)
Total comprehensive loss	(10,203)
Net cash utilized in operating activities	(15,247)
Net cash used in investing activities	(6,600)
Net cash inflow from financing activities	20,657
Net decrease in cash and cash equivalents	(1,190)

23.2 Details of a foreign subsidiary sold

Carrying amounts of assets and liabilities at the date of sale of a foreign subsidiary and December 31, 2020 were as follows:

	Amount
<i>Assets relating to a foreign subsidiary sold</i>	
Property, plant and equipment	52,504
Intangible assets	6
Trade and other receivables	8,861
Inventories	18,552
Cash and cash equivalents	4,086
Total assets	84,009
<i>Liabilities relating to a foreign subsidiary sold</i>	
Long-term borrowings	30,845
Short-term borrowings	17,586
Trade and other payables	1,471
Due to related parties	1,042
Total liabilities	50,944
Gross value of net assets of a foreign subsidiary sold at the date of disposal	33,065
Less: Value of NCI of a foreign subsidiary at the date of disposal	(6,517)
Net value of net assets of a foreign subsidiary sold	26,548

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24. ZAKAT

24.1 Zakat expense for the year

	2021	2020
Zakat	19,111	16,003

Income tax is applicable on local subsidiaries wherein the shareholders are foreigners (i.e. non-Saudi nationals). Since there is no taxable income during the current and comparative years, therefore no income tax provision (i.e. current and deferred tax) is recognized.

24.2 Movement in zakat payable is as follows:

	2021	2020
January 1	18,605	14,123
Current year	17,596	14,365
Prior year under provision	1,515	1,638
Provision for the year	19,111	16,003
Payments	(14,770)	(11,521)
December 31	22,946	18,605

24.3 Status of assessments

The Company and its 100% effectively owned Saudi Arabian subsidiaries submit zakat returns on a combined basis. Other Group subsidiaries submit their zakat and income tax returns independently. Zakat returns for the Company have been filed and paid for all years through to 2020 and zakat certificates have been received.

During 2020, the Company received the final assessments for the years from 2015 to 2018 claiming additional zakat liability of SR 2.15 million. The Company settled part of the additional liability by SR 0.51 million and raised an objection on the remaining balance of the aforementioned assessments. During 2021, the Company received revised assessments claiming an additional zakat liability of SR 1.52 million and the Company filed an appeal against these assessments.

During 2021, the Company received the preliminary assessments for the years 2019 and 2020 claiming additional zakat liability of SR 11.53 million. The Company settled part of the additional liability by SR 0.18 million and raised an objection on the remaining balance of the aforementioned assessments. The Company received revised final assessments claiming an additional zakat liability of SR 10.91 million and the Company filed an appeal against these assessments.

The status of the final zakat and income tax assessments of the other Group's subsidiaries is disclosed in their respective financial statements.

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25. REVENUE

	2021	2020
Revenue	3,227,410	2,423,285
Timing of revenue recognition:		
- At a point in time	3,134,129	2,325,584
- Over time	93,281	97,701
	3,227,410	2,423,285

The amount of revenue to be recognized is based on the consideration that the Group expects to receive at contract inception, in exchange for its goods and services. The Group does not have any contracts where the period between the transfer of the promised goods or services to customers and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction price for time value of money.

Refer to note 21 for disclosure of the revenue earned for each reportable segment.

26. SELLING AND DISTRIBUTION EXPENSES

	Note	2021	2020
Employees' salaries and related costs	30	31,804	29,930
Transportation and shipping		30,259	24,305
Sales commission		4,679	4,296
Repairs and maintenance		2,840	2,897
Depreciation and amortization		2,770	3,036
Royalties	19	1,100	849
Delivery and insurance		1,982	1,598
Advertising		1,050	1,275
Other		9,945	7,339
		86,429	75,525

27. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2021	2020
Employees' salaries and related costs	30	96,840	76,186
Depreciation and amortization		9,519	9,981
Insurance		2,989	2,675
Board and committee members' compensation		2,169	2,114
Repairs and maintenance		1,651	1,498
Short-term lease charges		1,439	1,588
Communication and utilities		1,313	1,328
Travel		593	522
Other		12,072	10,843
		128,585	106,735

28. OTHER INCOME

Other income for the year ended December 31, 2021 mainly represents gain on insurance claim receivable and gain on disposal of property, plant and equipment amounting to SR 5.31 million (2020: Nil) and SR 1.42 million (2020: SR 2.19 million), respectively.

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29. FINANCE COSTS

	Note	2021	2020
Short-term borrowings		8,038	11,215
Employees' defined benefits liabilities	17	1,931	2,564
Long-term borrowings		3,265	6,584
Accretion of finance cost under lease liabilities	6	778	809
Other		4,828	8,687
		18,840	29,859

Finance costs amounting to SR 0.99 million (2020: SR 1.21 million) were capitalized during the year ended December 31, 2021. 'Other' mainly represents charges relating to issuing letters of credit and guarantee.

30. EMPLOYEE SALARIES AND STAFF RELATED BENEFITS

	Note	2021	2020
Salaries and staff related benefits charged to:			
Cost of revenue		145,812	140,694
Selling and distribution	26	31,804	29,930
General and administrative	27	96,840	76,186
		274,456	246,810

These salaries and staff related benefits include the current service cost related to end of service benefits obligations amounting to SR 9.91 million (2020: SR 10.01 million). (Note 17.2)

31. EARNINGS PER SHARE

The Company presents basic and diluted earnings per shares (EPS) for its ordinary shares. Basic EPS is calculated by dividing profit for the year attributable to the ordinary equity holders of the Company separately from each of the continuing and discontinued operations by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares outstanding during the year for the effects of all dilutive potential ordinary shares. Since the Company has no such dilutive potential ordinary shares, the calculation and presentation of basic and diluted EPS of the Company will be the same.

The following table reflects the profit and weighted average number of ordinary shares used in the computations:

	2021	2020
Profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share:		
- From continuing operations	170,342	93,627
- From discontinued operation	-	(3,459)
	170,342	90,168
Weighted average number of ordinary shares outstanding during the year	60,000	60,000
Basic and diluted earnings per share		
- From continuing operations attributable to the ordinary equity holders of the Company	2.84	1.56
- From discontinued operation attributable to the ordinary equity holders of the Company	-	(0.06)
Total basic and diluted earnings per share attributable to the ordinary equity holders of the Company	2.84	1.50

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32. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table combines information about classes of financial instruments based on their nature and characteristics and the carrying amounts of financial instruments:

	2021	2020
Financial assets		
<i>i) Fair value through profit or loss</i>		
Investment in financial assets	-	25,491
<i>ii) Amortized cost</i>		
Cash and cash equivalents	40,305	51,098
Trade and other receivables	634,104	586,436
Contract assets	40,932	22,161
	715,341	659,695
	715,341	685,186
Financial liabilities at amortized cost		
<i>Amortized cost</i>		
Trade and other payables	470,551	462,219
Short-term borrowings	552,963	518,646
Long-term borrowings	145,535	256,430
Lease liabilities	20,046	21,981
	1,189,095	1,259,276

The financial assets measured at FVTPL at the end of the reporting period are classified as level 1 in the fair value hierarchy. There were no transfers between the levels of fair value hierarchies during the year.

The carrying values of the financial instruments classified under current assets and current liabilities in the consolidated statement of financial position approximate their fair values due to their short term nature. For the borrowings, the fair values are not materially different from their carrying amounts since interest payable on these borrowings is either close to current market rate or borrowings are of short term nature.

33. FINANCIAL RISK

The Group's activities are subject to financial risks such as market risk, credit risk and liquidity risk.

33.1 Market risk

Market risk is the risk from changes in market prices, such as foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. There has been no change during the year to the Group's exposure to market risks or the manner in which these risks are managed and measured.

(i) Foreign currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's functional and reporting currency is the Saudi Riyal. The Group's transactions are principally in Saudi Riyals and US Dollars, which are currently pegged. Management monitors the fluctuations in currency exchange rates and believes that the currency risk is not significant.

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33. FINANCIAL RISK (Continued)**33.1 Market risk (Continued)****(ii) Interest rate risk**

Interest rate risk is the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flows. The Group is exposed to interest rate risk on its interest bearing assets and liabilities mainly bank overdraft, bank facilities and other borrowings. Management limits the Group's interest rate risk by monitoring changes in interest rates and believes that the cash flow and fair value interest rate risk to the Group is not significant.

The Group's receivables and payables carried at amortized cost are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. Hence, the Group is not exposed to fair value interest rate risk.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. The Group does not hedge its exposure to movements in interest rates.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. A 50-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would have decreased or increased by SR 3.62 million (2020: SR 2.94 million).

33.2 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Potential concentrations of credit risk consist principally of trade receivables, amounts due from a related party and short-term cash investments. Details of how credit risk relating to trade receivables is managed are disclosed in Note 11. The amounts due from a related party are monitored and provision is made, where necessary, for any irrecoverable amounts. Short-term cash investments are only placed with banks with a high credit rating. The Group does not hold any collateral to cover the credit risk associated with its financial assets.

Trade receivables

The Group measures the loss allowance for trade receivables at an amount equal to the lifetime expected credit loss ("ECL"). The collective basis ECL on trade receivables are estimated using a provision matrix by reference to historical loss rates and adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date based on the management best estimate. Accordingly, the ECL is primarily based on the historical past due information and related loss rates and no significant assumptions were incorporated in the ECL model used to calculate the collective provision. Further, based on the management assessment, the forward-looking information i.e. economic factor also does not significantly impact the ECL loss and therefore the related sensitivities are not disclosed.

The Group performs credit-vetting procedures before granting credit to new customers. These procedures are reviewed and updated on an ongoing basis. There are no customers who comprise more than 10% of the total trade receivables balance in the current and prior years.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in the consolidated statement of financial position.

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33. FINANCIAL RISK (Continued)**33.2 Credit risk (Continued)**Trade receivables (Continued)

The Group does not hold collaterals as security. However, the Group has obtained promissory notes, post-dates cheques and letter of credits as security from certain parties to cover the credit risk.

The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several industries and the ECL assessment is performed at subsidiary level.

Refer to note 11 for the expected credit loss analysis as of December 31, 2021 and 2020.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The credit risk on bank balances is low considering the Group has outstanding loans and credit facilities with various banks, in Saudi Arabia, with good credit ratings (in the range of A+ to BBB+) as aligned from external credit rating companies such as Moody's and Fitch, so concentration risk is also low.

33.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

For maturity profile of the Group's financial liabilities, refer to Note 33.4.

The Group's current liabilities approximate to its current assets. The management believes that this is not expected to significantly impact the Group's ability to meet its obligation as the Group manages its liquidity risk by ensuring that bank borrowing facilities from multiple banks are available throughout the year (note 16).

33.4 Maturity profile of financial liabilities (undiscounted basis)

	Interest Rate (%)	Within 1 year	1 to 5 years	Over 5 years	Total
<u>2021</u>					
Lease liabilities	2.5 to 4	2,593	9,767	11,781	24,141
Long-term borrowings	2.38	66,831	82,826	-	149,657
Short-term borrowings	2.05	562,446	-	-	562,446
Trade and other payables	Interest free	470,551	-	-	470,551
		1,102,421	92,593	11,781	1,206,795
<u>2020</u>					
Lease liabilities	4	3,784	9,579	14,867	28,230
Long-term borrowings	2.17	121,003	142,624	-	263,627
Short-term borrowings	2.12	529,563	-	-	529,563
Trade and other payables	Interest free	462,219	-	-	462,219
		1,116,569	152,203	14,867	1,283,639

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34. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital. For capital management purposes, capital was considered as equal to the total equity of the Group.

Group's gearing ratio as of December 31, 2021, measured as total borrowings less cash and cash equivalents over total capital employed, was 45% (December 31, 2020: 49%). No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2021 and 2020.

35. SUPPLEMENTARY INFORMATION**35.1 Fire incident at one of the plastic segment factories**

On February 11, 2020, one of the plastic segment factories caught fire which resulted in damage to assets having a net book value of SR 17.69 million which includes net book value of property, plant and equipment and inventories amounting to SR 16.5 million (note 5) and SR 1.19 million respectively. During 2020, the Group had filed an insurance claim against damage of assets and business interruption losses and recorded an insurance claim receivable equal to the book value of assets. During the year 2021, management agreed a final claim settlement with the insurance company at a total amount of SR 33 million bifurcated against loss of assets and business interruption amounting to SR 23 million and 10 million respectively. This resulted in a net gain of SR 15.31 million which has been booked in cost of revenue for business interruption and the remaining in other income amounting to SR 10 million and SR 5.31 million respectively. During the year, the Group has received SR 9.60 million from the insurance company representing the partial payment against the insurance claim filed.

35.2 Coronavirus pandemic (COVID-19)

The Group is continuing its operations without any significant disruption after implementing the necessary business continuity procedures and ensuring required precautionary measures. As the COVID-19 situation is still fluid and evolving, currently it is difficult to measure the complete extent and duration of the economic impact. However, management believes, based on its assessment of the situation and available information, that there is no significant impact on the Group's financial performance and that the Group has sufficient liquidity and access to financing facilities to continue to meet its financial obligations for the foreseeable future as and when they become due.

35.3 Supplemental cash flow information

	2021	2020
Supplemental schedule of non-cash information		
Assets relating to 'disposal group classified as held for sale'	-	84,009
Liabilities relating to 'disposal group classified as held for sale'	-	50,944
Trade receivables written-off	8,244	14,580
Right-of-use asset and lease liabilities recognized	4,873	1,405
'Right-of-use asset' derecognized	3,517	303
Lease liabilities derecognized	4,319	-
Transfers from 'Property, plant and equipment' to 'inventories'	-	3,257
'Property, plant and equipment' transferred to 'intangible assets'	65	-
Debt arrangement cost	328	328
Accrued employee defined benefits liabilities	34	(45)

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36. RECLASSIFICATIONS

Certain comparative figures have been reclassified and re-presented for the purpose of better presentation. However, the effect of those reclassifications was not significant. The key reclassifications were as follows:

Reclassification from	Reclassification to	Amount
<i>Consolidated statement of profit or loss and other comprehensive income</i>		
Other income – Scrap sales	Revenue	5,213
<i>Consolidated statement of financial position</i>		
Other receivables	Insurance claim receivable	17,688

These reclassifications were made in the comparative year for improved comparability and did not affect either the equity, the net profit or cash flows of the Group for the previous year.

37. SUBSEQUENT EVENTS

There were no significant subsequent events, adjusting or non-adjusting, since December 31, 2021 that would have a material impact on the financial position or financial performance of the Group as reflected in these consolidated financial statements.

38. DIVIDENDS

On March 4, 2021, the Board of Directors of the Company approved the distribution of interim cash dividends of SR 0.6 per share amounting to SR 36 million to the shareholders of the Company.

On August 4, 2021, the Board of Directors of the Company approved the distribution of interim cash dividends of SR 0.75 per share amounting to SR 45 million to the shareholders of the Company.

On December 27, 2021, the Board of Directors of the Company approved the distribution of interim cash dividends of SR 0.75 per share amounting to SR 45 million to the shareholders of the Company.

39. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Company's Board of Directors on February 27, 2022.