

**ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

**ELECTRICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
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Independent auditor's report to the shareholders of Electrical Industries Company

Report on the audit of the consolidated financial statements

Our opinion

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

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020;
- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

- | | |
|------------------|--|
| Key audit matter | • Impairment assessments of property, plant and equipment, right-of-use assets and intangible assets |
|------------------|--|

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.



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

Our audit approach (continued)

Overview (continued)

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
<p><i>Impairment assessments of property, plant and equipment, right-of-use assets and intangible assets</i></p> <p>As at 31 December 2020, the Group had property, plant and equipment with a carrying value of Saudi Riyals 269,717,594, right-of-use assets of Saudi Riyals 11,590,699 and intangible assets of Saudi Riyals 9,387,732.</p> <p>At each reporting date, the Group reviews for impairment of the carrying amount of these assets, as specified above, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.</p> <p>The determination of the recoverable amounts, being the higher of value-in-use and fair value less costs of disposal, requires management to identify and then estimate the recoverable amounts for the assets or the cash generating units ("CGUs") to which the assets belong. Recoverable amounts, in case of value-in-use, are based on management's view of key internal value driver inputs as well as external market conditions such as future product prices as set out in the approved business plans. It also requires management to make estimates of future business growth, terminal growth rates and to determine the most appropriate discount rates.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> • Understood and evaluated the appropriateness of management's identification of the CGUs. • Assessed management's identification of impairment indicators, including the conclusions reached. We also evaluated the design and implementation of key controls over the impairment assessment processes comprising impairment indicator identification and the estimation of recoverable amounts. • Evaluated the reasonableness of management's assumptions and estimates used to determine the recoverable amounts of the CGUs where impairment indicators have been identified. This evaluation included: <ul style="list-style-type: none"> (i) Assessing the methodology used by management to estimate the values-in-use by checking, on a sample basis, the accuracy and appropriateness of the input data in the discounted cash flow models to supporting documentation, such as the approved business plans. We considered the reasonableness of business plans by comparing them to the historical results and the market data, particularly with respect to sales pricing, and comparing the current year's actual results with its forecast. We also inquired with management to understand the basis for the assumptions used in the business plans;



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

Our audit approach (continued)

Overview (continued)

Key audit matter	How our audit addressed the Key audit matter
<p>Management has identified the three subsidiaries of the Group as separate CGUs. The recoverable amounts of all CGUs, computed using discounted cash flow models, were in excess of the carrying values of the CGUs. As a result, no impairment losses were recorded in the consolidated financial statements.</p> <p>We considered this to be a key audit matter given the judgments involved in identifying impairment triggers and the complexity and estimations inherent in discounted cash flow models.</p> <p>Refer to Note 2.11 to the consolidated financial statements for the accounting policy relating to the impairment of these assets, Note 3 (e) for the disclosure of significant accounting estimates and judgements and Note 10 for the disclosure of matters related to impairment of property, plant and equipment, right-of-use assets and intangible assets.</p>	<p>(ii) Assessing the appropriateness of the discounted cash flow projections in the calculation of the values-in-use, testing the reasonableness of key assumptions such as the future business growth in the business plans period, terminal growth rates and discount rates. We made this assessment based on our knowledge of the business and industry by, for example, comparing the assumptions to historical results and other relevant information. Our internal valuation experts were engaged to assist us to assess the reasonableness of discount rates and terminal growth rates used in the discounted cash flow models;</p> <p>(iii) Testing management's discounted cash flow models used in the calculation of the value-in-use for mathematical accuracy and logical integrity of the underlying calculations; and</p> <p>(iv) Performing sensitivity analyses over key assumptions in the calculation of the values-in-use in order to assess the potential impact of a range of possible outcomes.</p> <ul style="list-style-type: none"> • Assessed the adequacy and appropriateness of the related disclosures in the accompanying consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises information included in the Group's 2020 Board of Directors' report, (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Group's 2020 Board of Directors' report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



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

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

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

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

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

PricewaterhouseCoopers

Ali H. Al Basri
License Number 409

16 March 2021



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

	Note	Year ended 31 December	
		2020	2019
Revenue	5, 28	648,685,768	577,555,531
Cost of sales	6, 28	(539,585,322)	(526,849,494)
Gross profit		109,100,446	50,706,037
Selling and distribution expenses	7	(27,464,890)	(30,855,236)
General and administrative expenses	8	(39,491,900)	(38,425,032)
Expected credit loss allowance	16	(258,159)	(1,889,485)
Other operating income - net		282,537	1,101,411
Operating profit (loss)		42,168,034	(19,362,305)
Financial costs	9	(7,469,793)	(11,080,714)
Share of net loss of an investment accounted for using the equity method	13	(53,400)	(82,445)
Profit (loss) before zakat		34,644,841	(30,525,464)
Zakat expense	27	(10,722,158)	(9,667,220)
Profit (loss) for the year		23,922,683	(40,192,684)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Loss on remeasurement of employee benefit obligations	24	(3,861,334)	(3,989,062)
Total comprehensive income (loss) for the year		20,061,349	(44,181,746)
Earnings (loss) per share			
Basic	32	0.53	(0.89)
Diluted	32	0.53	(0.89)

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


Yousef Al Quraishi
Designated member

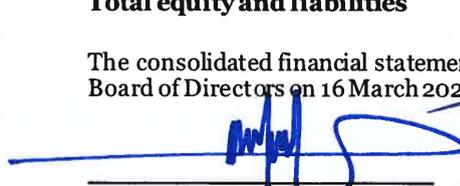

Tariq Al Tahini
Managing Director


Medhat A. Ghaleb
EVP Finance and IT

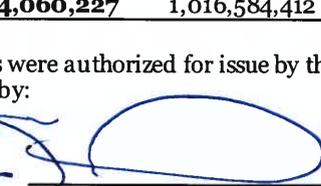
ELECTRICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of financial position
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 31 December	
		2020	2019
Assets			
Non-current assets			
Property, plant and equipment	10	269,717,594	281,938,379
Right-of-use assets	11	11,590,699	7,797,828
Intangible assets	12	9,387,732	12,248,636
Financial asset at fair value through other comprehensive income	14	15,300,000	9,000,000
Total non-current assets		305,996,025	310,984,843
Current assets			
Inventories	15	261,718,456	210,857,284
Trade and other receivables	16	455,553,574	470,600,052
Cash and cash equivalents	17	70,792,172	24,142,233
Total current assets		788,064,202	705,599,569
Total assets		1,094,060,227	1,016,584,412
Equity and liabilities			
Equity			
Share capital	18	450,000,000	450,000,000
Statutory reserve	19	47,874,050	45,481,782
Treasury shares	20	(9,861,621)	(2,697,043)
Share based payment reserve	21	629,375	-
Retained earnings		76,873,742	59,204,661
Total equity		565,515,546	551,989,400
Liabilities			
Non-current liabilities			
Long-term borrowings	22	31,237,480	35,853,048
Lease liabilities	23	9,408,799	6,804,173
Employee benefit obligations	24	73,894,933	67,975,619
Total non-current liabilities		114,541,212	110,632,840
Current liabilities			
Trade and other payables	25	235,642,860	148,498,028
Current portion of long-term borrowings	22	12,815,568	7,963,291
Current portion of lease liabilities	23	1,881,389	493,833
Short-term murabaha borrowings	26	151,173,913	184,419,919
Zakat payable	27	12,489,739	12,587,101
Total current liabilities		414,003,469	353,962,172
Total liabilities		528,544,681	464,595,012
Total equity and liabilities		1,094,060,227	1,016,584,412

The consolidated financial statements including accompanying notes were authorized for issue by the Board of Directors on 16 March 2021 and were signed on their behalf by:


Yousef Al Quraishi
Designated member


Tariq Al Tahini
Managing Director


Medhat A. Ghaleb
EVP Finance and IT

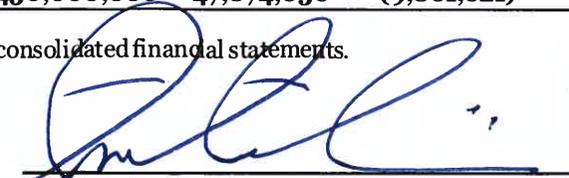
ELECTRICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of changes in equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Treasury shares	Share based compensation reserve	Retained earnings	Total
At 1 January 2019		450,000,000	45,481,782	-	-	103,386,407	598,868,189
Loss for the year		-	-	-	-	(40,192,684)	(40,192,684)
Other comprehensive loss for the year		-	-	-	-	(3,989,062)	(3,989,062)
Total comprehensive loss for the year		-	-	-	-	(44,181,746)	(44,181,746)
Purchase of treasury shares	20	-	-	(2,697,043)	-	-	(2,697,043)
At 31 December 2019		450,000,000	45,481,782	(2,697,043)	-	59,204,661	551,989,400
Profit for the year		-	-	-	-	23,922,683	23,922,683
Other comprehensive loss for the year		-	-	-	-	(3,861,334)	(3,861,334)
Total comprehensive income for the year		-	-	-	-	20,061,349	20,061,349
Transfer to statutory reserve	19	-	2,392,268	-	-	(2,392,268)	-
Purchase of treasury shares	20	-	-	(7,164,578)	-	-	(7,164,578)
Share based compensation	21	-	-	-	629,375	-	629,375
At 31 December 2020		450,000,000	47,874,050	(9,861,621)	629,375	76,873,742	565,515,546

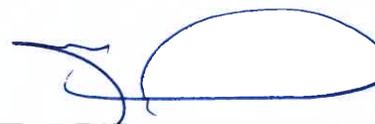
The accompanying notes are an integral part of these consolidated financial statements.



Yousef Al Quraishi
Designated member



Tariq Al Tahini
Managing Director



Medhat A. Ghaleb
EVP Finance and IT

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

	Note	Year ended 31 December	
		2020	2019
Cash flows from operating activities			
Cash generated from operations	31	122,408,026	26,487,350
Financial costs paid on borrowings		(8,275,613)	(9,291,101)
Zakat paid	27	(10,819,520)	(11,297,878)
Net cash inflow from operating activities		103,312,893	5,898,371
Cash flows from investing activities			
Payments for purchase of property, plant and equipment	10	(7,578,876)	(7,268,904)
Payments for intangible assets	12	(776,012)	(4,855,105)
Payments for financial asset at fair value through other comprehensive income	14	(6,300,000)	-
Net cash outflow from investing activities		(14,654,888)	(12,124,009)
Cash flows from financing activities			
Changes in short-term murabaha borrowings		(33,246,006)	11,108,711
Repayment of long-term borrowings		-	(5,500,000)
Repayment of lease liabilities		(1,597,482)	(472,573)
Payments for purchase of treasury shares		(7,164,578)	(2,697,043)
Net cash (outflow) inflow from financing activities		(42,008,066)	2,439,095
Net change in cash and cash equivalents		46,649,939	(3,786,543)
Cash and cash equivalents at beginning of year		24,142,233	27,928,776
Cash and cash equivalents at end of year	17	70,792,172	24,142,233
Non-cash operating, investing and financing activities:			
Recognition of right-of-use assets and corresponding lease liabilities	11	5,589,664	8,430,104
Amortisation of transaction costs	9	236,709	272,201
Loss on an investment accounted for using the equity method classified under trade and other payables	13	53,400	82,445

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

		
Yousef Al Quraishi Designated member	Tariq Al Tahini Managing Director	Medhat A. Ghaleb EVP Finance and IT

ELECTRICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended 31 December 2020
(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Electrical Industries Company (the “Company” or “EIC”) and its subsidiaries (collectively the “Group”) consist of the Company and its following subsidiaries registered as limited liability companies in the Kingdom of Saudi Arabia:

	Effective ownership at 31 December	
	2020	2019
Wahah Electric Supply Company of Saudi Arabia Limited (“WESCOSA”)	100%	100%
Saudi Transformers Company Limited (“STC”)	100%	100%
Saudi Power Transformers Company Limited (“SPTC”)	100%	100%
Gulf Electrical Equipment Company L.L.C. (“GEEC”)	100%	-

The Group is principally engaged in the manufacturing, assembly, supply and repair and maintenance of transformers, compact substations and low voltage distribution panels, electrical distribution boards, cable trays, switch gears and other electrical equipment as well as provision of technical services relating to these activities.

During 2020, the Group incorporated a 100% owned subsidiary, GEEC, in United Arab Emirates which is licensed to engage in power generation, transmission and distribution equipment trading.

The Company is a Saudi joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration (“CR”) number 2050056359 issued in Dammam on 22 Shaban 1428 H (4 September 2007). The accompanying consolidated financial statements includes the operations of the Company and its branch registered in Dammam under CR number 2050105757 dated 24 Rajab 1436H (13 May 2015). The registered address of the Company is P.O. Box 6033, Al Khobar 31442, Kingdom of Saudi Arabia.

SPTC is dependent on financial support from its shareholder (the Company). The Group’s management intends to provide adequate financial support to SPTC to enable it to continue its operations and believes that it will generate positive cash flows in the future. Total property, plant and equipment of SPTC amounted to Saudi Riyals 76.8 million as at 31 December 2020 (31 December 2019: Saudi Riyals 81.4 million).

In response to the spread of the COVID-19 as a pandemic, the Group’s management is continuously assessing the situation and is taking proactive measures to minimize its impacts on the Group’s operations due to the slowdown in the economic activities, including those to ensure the health and safety of its employees and contractors. During the year ended 31 December 2020, the Group’s production and sales were negatively impacted as two of the Group’s factories located in the Dammam Industrial City did not operate at the budgeted capacity for approximately 45 days as the Group stayed in compliance with the preventive measures applied by the Government of Kingdom of Saudi Arabia, including curfew and lockdown in the Dammam Industrial City. Such restrictions were eased out with effect from 31 May 2020 and the lockdown and curfew was completely lifted on 21 June 2020. After such restrictions were lifted, the Group recovered significantly and has achieved sales of Saudi Riyals 648.7 million for the year ended 31 December 2020 which were slightly less than the budgeted sales for such year. Further, the Group has taken certain measures to reduce its operating costs during 2020. Considering the above, the Group’s management believes that the Covid-19 pandemic, by itself, has had limited direct material effects on the Group’s reported results for the year ended 31 December 2020. The Group’s management continues to monitor the situation closely.

ELECTRICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended 31 December 2020
(All amounts in Saudi Riyals unless otherwise stated)

1 General information (continued)

As of 31 December 2020, the Group has a current ratio of 1.90, confirmed order back-log of Saudi Riyals 1,016.2 million, cash and cash equivalent of Saudi Riyals 70.8 million and unutilized credit facilities of Saudi Riyals 409.2 million. The Group's management has also forecasted its liquidity position and, based on these factors, believes that the Group will be adequately able to meet its working capital and capital expenditure needs for the coming twelve months from the reporting date.

2 Summary of significant accounting policies

The principal accounting policies applied for the preparation of consolidated financial statements of the Group are set out below. The accounting policies have been consistently applied to all the years presented.

2.1 Basis of preparation

2.1.1 Statement of compliance

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

2.1.2 Historical cost convention

These consolidated financial statements are prepared under the historical cost convention except for the financial assets measured at fair value through other comprehensive income and employee benefit obligations as explained in the relevant accounting policies.

2.1.3 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their reporting period commencing on or after 1 January 2020.

- Definition of Material - amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- Definition of a Business - amendments to IFRS 3 'Business Combinations';
- Interest Rate Benchmark Reform - amendments to IFRS 9 'Financial instruments', IAS 39 'Financial instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures'; and
- Revised Conceptual Framework for Financial Reporting.

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

2.1.4 Standards issued but not yet effective:

Certain new accounting standards and interpretations have been published that are mandatory from 1 January 2021 or later reporting periods and have not been early adopted by the Group. Such standards are not expected to have a material impact in the future reporting periods and on foreseeable future transactions.

2.2 Basis of consolidation

(a) Subsidiaries

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

ELECTRICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended 31 December 2020
(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.2 Basis of consolidation (continued)

(a) Subsidiaries (continued)

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

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

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

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

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

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

(b) Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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2 Summary of significant accounting policies (continued)

2.2 Basis of consolidation (continued)

(c) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.3 Revenue

(a) Sale of goods

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. The Group recognizes revenue when control of the goods has transferred, being when the products are delivered to the customer, the customer has full discretion over the use or sale of such goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location as per the terms of the contract, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sales-related warranties associated with goods cannot be purchased separately, and 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' consistent with its previous accounting treatment.

A receivable is recognized 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.

(b) Performance of services

The Group provides installation and maintenance services under fixed-price and variable price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the actual cost spent relative to the total expected cost to complete.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

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2 Summary of significant accounting policies (continued)

2.3 Revenue (continued)

(b) Performance of services (continued)

If the contract includes an hourly fee, revenue is recognised in the amount to which the Group has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

Some contracts include multiple deliverables, such as the sale of equipment and related installation services. However, the installation is simple, does not include an integration service and could be performed by another party. It is therefore accounted for as a separate performance obligation. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. If contracts include the installation of equipment, revenue for the equipment is recognised at a point in time when the equipment is delivered, the legal title has passed and the customer has accepted the equipment and the revenue from services is recognised over the period of time.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

2.4 Foreign currencies

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in "Saudi Riyals", which is the Group's presentation as well as functional currency of all entities.

(b) Transactions and balances

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

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

2.5 Zakat and taxes

The Group is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Zakat, for the Company and its subsidiaries, is calculated based on higher of approximate zakat base and adjusted profit and charged to profit or loss. Additional amounts, if any, are accounted for when determined to be required for payment.

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

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2 Summary of significant accounting policies (continued)

2.6 Business combinations

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the

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

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

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

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

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2 Summary of significant accounting policies (continued)

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

Depreciation is calculated on property, plant and equipment so as to allocate its cost, less estimated residual value, on a straight line basis. Depreciation is charged to profit or loss.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each annual reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. Major spare parts qualify for recognition as property, plant and equipment when the Group expects to use them during more than one year. Transfers are made to relevant operating assets category as and when such items are available for use.

Assets in the course of construction or development are capitalised in the capital work-in-progress account. The asset under construction or development is transferred to the appropriate category in property, plant and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of capital work-in-progress comprises its purchase price, construction / development costs and any other directly attributable costs to the construction or acquisition of an item of capital work-in-progress intended by management. Capital work-in-progress is not depreciated.

2.8 Leases

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

Lease liabilities

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

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2 Summary of significant accounting policies (continued)

2.8 Leases (continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the individual lessee, which does not have recent third-party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

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

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

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

The lease liability is 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 rate method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related RoU 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.

Right-of-use assets (RoU)

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

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 “Provisions, contingent liabilities and contingent assets”. The costs are included in the related RoU asset, unless those costs are incurred to produce inventories.

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2 Summary of significant accounting policies (continued)

2.8 Leases (continued)

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

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

The Group applies IAS 36 "Impairment of Assets" to determine whether a RoU asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of lease liability and the RoU asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the profit or loss.

2.9 Intangible assets

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

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

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

Intangible assets with finite useful lives are amortized on a straight-line basis over periods not exceeding 5 years.

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2 Summary of significant accounting policies (continued)

2.10 Financial instruments

2.10.1 Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

(ii) Measurement

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.10.2 Financial liabilities

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

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

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2 Summary of significant accounting policies (continued)

2.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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

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

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

2.12 Impairment of financial assets

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

For trade receivables and other financial assets, the Group applies the simplified approach as permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables. The amount of the loss is charged to the profit or loss.

The loss rates are based on probability of default based on historical trends relating to collections of Group's trade receivables. The loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the expected rate of increase in inflation for the upcoming year in the Kingdom of Saudi Arabia as the most relevant factor, and accordingly adjusts the loss rates based on such expected changes.

Trade receivables are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, significant decrease in credit worthiness of the customer, the failure of the customer to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 730 days past due.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss.

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2 Summary of significant accounting policies (continued)

2.13 Inventories

Raw materials and spares, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Allowance for inventory obsolescence is made considering various factors including age of the inventory items, historic usage and expected utilization in future.

2.14 Trade receivables

Trade receivables are carried at the transaction price related to a performance obligation less ECL allowance on trade receivables. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. The Group holds trade receivables with the objective to collect the contractual cash flows and therefore measures them at amortized cost using effective interest rate method. Also see Note 2.12.

2.15 Cash and cash equivalents

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

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

2.16 Share capital

Ordinary shares are classified as equity. Transaction costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

2.17 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost. Treasury shares are presented as a deduction from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised as share premium or discount which is presented in equity.

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2 Summary of significant accounting policies (continued)

2.18 Share based compensation

The Group has announced an Employee Share Incentive Plan effective 1 April 2020, whereby qualifying employees of the Group receive remuneration in the form of share-based payments, and employees render services as consideration for equity instruments.

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 21.

The cost mentioned above is recognised in employee benefits expense, together with a corresponding increase in equity (share based compensation reserve), over the period in which the service conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. There are no market performance conditions or non-market performance conditions attached to the award. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because service conditions have not been met. Where awards include a non-vesting condition, the transactions are treated as vested irrespective of whether the non-vesting condition is satisfied, provided that service conditions are satisfied. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 32).

2.19 Trade payables

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

2.20 Provisions

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

Warranty provisions - The Group offers warranties for its products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Warranty provisions and reversals are charged to "Cost of sales". Adjustments are made to the warranty provision considering the changes in recent trends, technological improvements and legal and constructive obligation of the Group.

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2 Summary of significant accounting policies (continued)

2.21 Borrowings

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

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

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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 capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

2.22 Employee benefit obligations

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

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

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

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

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

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2 Summary of significant accounting policies (continued)

2.23 Segment reporting

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

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

2.24 Earnings per share

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

2.25 Dividend distribution

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

3 Critical accounting estimates and judgments

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

(a) Useful lives of property, plant and equipment

The management determines the estimated useful lives of property, plant and equipment for computing depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates. At year-end, if the useful life increased / decreased by 10% against the current useful life with all other variables held constant, profit for the year would have been Saudi Riyals 1.9 million higher or Saudi Riyals 2.3 million lower.

(b) Expected credit loss ("ECL")

Measurement of ECL is a significant estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 16. The following components have a major impact on credit loss allowance: definition of default, significant increase in credit risk (SICR), probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. At year-end, if the loss rates increased / decreased by 10% with all other variables held constant, the impact on profit for the year would have been Saudi Riyals 0.2 million lower or higher.

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3 Critical accounting estimates and judgments (continued)

(c) Allowance for inventory obsolescence

The Group determines its allowance for inventory obsolescence based upon historical experience, current condition, and current and future expectations with respect to its use. The estimate of the Group's allowance for inventory obsolescence could change from period to period, which could be due to assessment of the future usage of inventory. At year-end, if the provision increased/decreased by 10% with all other variables held constant, profit for the year would have been Saudi Riyals 1.2 million lower or higher.

(d) RoU assets and lease liabilities

Extension and termination options are included in a number of leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

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

(e) Impairment assessments of non-current assets

The Group's management, in accordance with the Group's accounting policy, tests assets or Cash-Generating Units ("CGU") for impairment whenever impairment indicators exist. Among others, the events or changes in circumstances which could indicate that an asset or CGU may be impaired mainly include the following:

- A significant decrease in the market prices of Group's products;
- A significant change in the extent or manner in which an asset is being used or in its physical condition including a significant decrease in current and projected sales volumes; and
- Evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, worse than expected.

The Group's management determines the recoverable amounts of CGUs based on value-in-use calculations. These calculations require the use of estimates in relation to the future cash flows and use of an appropriate discount rate applicable to the circumstances of the Group.

Future events could cause the estimates used in these value-in-use calculations to change adversely with a consequent effect on the future results of the Group.

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4 Segment information

The Group operates principally in the following two operating segments:

- (i) Manufacturing, assembly and supply of various types of electrical equipment; and
- (ii) Provision of technical services.

Information regarding the results of each reportable segment as of 31 December 2020 and 2019 and for the year ended 31 December 2020 and 2019 are summarized as follows:

	Manufacturing, assembly and supply	Services	Total
Year ended 31 December 2020			
Revenue			
- At a point in time	589,760,560	-	589,760,560
- Over time	-	58,925,208	58,925,208
	<u>589,760,560</u>	<u>58,925,208</u>	648,685,768
Cost of sales	(514,738,464)	(24,846,858)	(539,585,322)
Gross profit	75,022,096	34,078,350	109,100,446
Selling and distribution expenses	(25,346,513)	(2,118,377)	(27,464,890)
General and administrative expenses	(37,070,170)	(2,421,730)	(39,491,900)
Expected credit loss allowance	(258,159)	-	(258,159)
Other operating income - net	282,537	-	282,537
Operating profit	12,629,791	29,538,243	42,168,034
Financial costs	(7,142,097)	(327,696)	(7,469,793)
Segment results	<u>5,487,694</u>	<u>29,210,547</u>	34,698,241
As at 31 December 2020			
Property, plant and equipment	251,248,010	18,469,584	269,717,594
Total assets	<u>1,026,207,176</u>	<u>67,853,051</u>	1,094,060,227
Total liabilities	<u>517,656,901</u>	<u>10,887,780</u>	528,544,681
Year ended 31 December 2019			
Revenue			
- At a point in time	523,473,839	-	523,473,839
- Over time	-	54,081,692	54,081,692
	<u>523,473,839</u>	<u>54,081,692</u>	577,555,531
Cost of sales	(501,437,384)	(25,412,110)	(526,849,494)
Gross profit	22,036,455	28,669,582	50,706,037
Selling and distribution expenses	(28,260,880)	(2,594,356)	(30,855,236)
General and administrative expenses	(35,830,675)	(2,594,357)	(38,425,032)
Expected credit loss allowance	(1,889,485)	-	(1,889,485)
Other operating income - net	805,075	296,336	1,101,411
Operating (loss) profit	(43,139,510)	23,777,205	(19,362,305)
Financial costs	(10,547,302)	(533,412)	(11,080,714)
Segment results	<u>(53,686,812)</u>	<u>23,243,793</u>	(30,443,019)
As at 31 December 2019			
Property, plant and equipment	262,393,074	19,545,305	281,938,379
Total assets	<u>940,636,930</u>	<u>75,947,482</u>	1,016,584,412
Total liabilities	<u>457,729,280</u>	<u>6,865,732</u>	464,595,012

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4 Segment information (continued)

Reconciliation of segment results with profit (loss) before zakat

	2020	2019
Total segment results	34,698,241	(30,443,019)
Share in net loss of an investment accounted for using the equity method	(53,400)	(82,445)
Profit (loss) before zakat	34,644,841	(30,525,464)

The business activities of the Group are mainly concentrated in the Kingdom of Saudi Arabia. All operating assets of the Group are located in the Kingdom of Saudi Arabia. The revenue for the year ended 31 December 2020 and 2019, categorized by the geographical segments is as follows:

	2020	2019
Kingdom of Saudi Arabia	521,655,002	526,377,197
Other countries	127,030,766	51,178,334
	648,685,768	577,555,531

Revenues of approximately Saudi Riyals 93.4 million for the year ended 31 December 2020 (2019: Saudi Riyals 79.1 million) are derived from an external customer.

5 Revenue

	2020	2019
Revenue from sale of goods - at a point in time	589,760,560	523,473,839
Revenue from rendering of services - over a period of time	58,925,208	54,081,692
	648,685,768	577,555,531

6 Cost of sales

	Note	2020	2019
Raw materials and consumables used		393,345,168	333,782,146
Changes in work-in-progress and finished goods		(6,806,858)	20,121,731
Salaries and benefits		98,812,016	95,165,392
Employee benefit obligations	24	4,783,445	5,381,123
Stores and spares consumed		8,083,494	6,797,173
Depreciation and amortization	10, 11, 12	21,822,244	19,876,165
Inventories written-off	15	-	21,685,954
Inventories written-down	15	-	9,054,178
Repairs and maintenance		4,854,257	2,372,132
Rent and utilities		6,347,430	8,127,073
Allowance (reversal) for inventory obsolescence	15	2,215,032	(4,890,534)
Other		6,129,094	9,376,961
		539,585,322	526,849,494

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7 Selling and distribution expenses

	Note	2020	2019
Salaries and benefits		14,439,410	14,271,054
Employee benefit obligations	24	837,276	876,071
Freight		4,960,742	5,158,790
Sales commission		1,097,293	1,772,404
Depreciation and amortization	10, 11, 12	1,068,929	860,201
Advertisement		1,127,591	999,471
Provision for warranties		1,262,431	1,521,245
Product development		290,761	724,762
Royalty		282,523	673,883
Office expenses		314,750	295,637
Other		1,783,184	3,701,718
		27,464,890	30,855,236

8 General and administrative expenses

	Note	2020	2019
Salaries and benefits		22,953,118	23,358,461
Employee benefit obligations	24	1,524,495	1,646,188
Depreciation and amortization	10, 11, 12	2,342,197	4,152,422
Board of directors' fees	28	1,600,000	1,600,000
Office expenses		4,395,770	3,675,642
Professional services		2,839,935	1,141,270
Rent and utilities		607,319	794,228
Repairs and maintenance		553,649	120,000
Other		2,675,417	1,936,821
		39,491,900	38,425,032

9 Financial costs

	Note	2020	2019
Interest on borrowings	22, 26	6,802,176	10,498,596
Interest on lease liabilities	23	430,908	309,917
Amortisation of transaction costs	22	236,709	272,201
		7,469,793	11,080,714

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10 Property, plant and equipment

	1 January 2020	Additions	Disposals	Transfers	31 December 2020
2020					
Cost					
Land	41,741,269	-	-	-	41,741,269
Buildings and leasehold improvements	240,081,829	-	-	1,270,317	241,352,146
Plant and machinery	265,790,366	89,724	(273,743)	2,838,694	268,445,041
Furniture, fixtures and office equipment	43,788,052	612,593	(2,447,870)	169,343	42,122,118
Vehicles	6,094,897	-	-	-	6,094,897
Construction-in-progress	6,523,202	6,876,559	-	(4,278,354)	9,121,407
	<u>604,019,615</u>	<u>7,578,876</u>	<u>(2,721,613)</u>	<u>-</u>	<u>608,876,878</u>
Accumulated depreciation					
Buildings and leasehold improvements	(99,192,738)	(7,942,574)	-	(34,100)	(107,169,412)
Plant and machinery	(176,632,072)	(10,402,202)	273,743	(107,080)	(186,867,611)
Furniture, fixtures and office equipment	(41,725,680)	(1,433,216)	2,447,870	141,180	(40,569,846)
Vehicles	(4,530,746)	(21,669)	-	-	(4,552,415)
	<u>(322,081,236)</u>	<u>(19,799,661)</u>	<u>2,721,613</u>	<u>-</u>	<u>(339,159,284)</u>
	<u>281,938,379</u>				<u>269,717,594</u>

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10 Property, plant and equipment (continued)

	1 January 2019	Additions	Disposals	Transfers	31 December 2019
2019					
Cost					
Land	41,741,269	-	-	-	41,741,269
Buildings and leasehold improvements	238,123,090	-	-	1,958,739	240,081,829
Plant and machinery	258,105,962	1,194,786	(845,451)	7,335,069	265,790,366
Furniture, fixtures and office equipment	43,538,958	249,094	-	-	43,788,052
Vehicles	6,094,897	-	-	-	6,094,897
Construction-in-progress	9,991,986	5,825,024	-	(9,293,808)	6,523,202
	<u>597,596,162</u>	<u>7,268,904</u>	<u>(845,451)</u>	<u>-</u>	<u>604,019,615</u>
Accumulated depreciation					
Buildings and leasehold improvements	(91,227,586)	(7,965,152)	-	-	(99,192,738)
Plant and machinery	(166,812,979)	(10,434,706)	615,613	-	(176,632,072)
Furniture, fixtures and office equipment	(39,876,995)	(1,848,685)	-	-	(41,725,680)
Vehicles	(4,396,822)	(133,924)	-	-	(4,530,746)
	<u>(302,314,382)</u>	<u>(20,382,467)</u>	<u>615,613</u>	<u>-</u>	<u>(322,081,236)</u>
	<u>295,281,780</u>				<u>281,938,379</u>

a) Depreciation is calculated on a straight-line basis over the following useful lives of the assets:

Number of years

- Buildings and leasehold improvements 5 - 33
- Plant and machinery 3 - 30
- Furniture, fixtures and office equipment 3 - 10
- Vehicles 4

b) The buildings and leasehold improvements of the Group are constructed on land parcels leased under renewable operating lease agreements with the Saudi Industrial Property Authority ("Modon") ranging from 20 to 25 Hijra years expiring on 12 Rabi II 1454 H (corresponding to 20 July 2032).

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10 Property, plant and equipment (continued)

- c) Land parcels with a cost of Saudi Riyals 6.6 million as at 31 December 2020 (2019: Saudi Riyals 6.6 million) are held under the name of an ex-executive on behalf of the Group.
- d) Capital work-in-progress as at 31 December 2020 principally represents certain machineries under installation and improvements to the buildings which are expected to be completed in 2021.
- e) Also see Note 22.1.
- f) As at 31 December 2020, the management has performed impairment assessments for non-current assets of all CGUs in the Group, which have not resulted in an impairment loss. Further, with regard to the assessment of the value-in-use, the Group's management believes that no reasonably possible change in any of the key assumptions would cause the carrying values of the CGUs to materially exceed their recoverable amounts.

11 Right-of-use assets

2020	Land	Vehicles	Total
Cost			
1 January	8,430,104	-	8,430,104
Additions	-	5,589,664	5,589,664
31 December	8,430,104	5,589,664	14,019,768
Accumulated amortization			
1 January	(632,276)	-	(632,276)
Amortisation for the year	(632,277)	(1,164,516)	(1,796,793)
31 December	(1,264,553)	(1,164,516)	(2,429,069)
	7,165,551	4,425,148	11,590,699
2019	Land	Vehicles	Total
Cost			
1 January	8,430,104	-	8,430,104
Prepaid rentals	-	-	-
31 December	8,430,104	-	8,430,104
Accumulated amortisation			
1 January	-	-	-
Amortisation for the year	(632,276)	-	(632,276)
31 December	(632,276)	-	(632,276)
	7,797,828	-	7,797,828

The Group has leases in respect of various parcels of land and vehicles. Rental contracts are typically made for fixed periods of 4 to 25 years and considered an extension option where the Group's management is reasonably certain to exercise.

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

For short-term leases (a lease term of 12 months or less), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. During 2020, short-term lease expense amounting to Saudi Riyals 0.4 million (2019: Saudi Riyals 2.0 million) was recorded.

Also see Note 10 (f).

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12 Intangible assets

2020	Computer software	License, designs and prototypes	Intangible assets under development	Total
Cost				
1 January	17,658,735	18,747,120	2,831,519	39,237,374
Additions	195,773	-	580,239	776,012
31 December	17,854,508	18,747,120	3,411,758	40,013,386
Accumulated amortisation				
1 January	(15,022,704)	(11,966,034)	-	(26,988,738)
Amortisation for the year	(1,174,926)	(2,461,990)	-	(3,636,916)
31 December	(16,197,630)	(14,428,024)	-	(30,625,654)
	1,656,878	4,319,096	3,411,758	9,387,732
2019				
Cost				
1 January	16,280,159	15,460,680	2,641,430	34,382,269
Additions	1,378,576	3,286,440	190,089	4,855,105
31 December	17,658,735	18,747,120	2,831,519	39,237,374
Accumulated amortisation				
1 January	(13,602,956)	(9,511,737)	-	(23,114,693)
Amortisation for the year	(1,419,748)	(2,454,297)	-	(3,874,045)
31 December	(15,022,704)	(11,966,034)	-	(26,988,738)
	2,636,031	6,781,086	2,831,519	12,248,636

Also see Note 10 (f).

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13 Interest in other entities

The Company held 49% ownership shares in CG Power Solutions Saudi Arabia (the “Associate”), a limited liability company registered in the Kingdom of Saudi Arabia. The share in net loss of the associate amounted to Saudi Riyals 0.1 million for the year 2020 (2019: Saudi Riyals 0.1 million). During 2018, EIC and other shareholder of the Associate resolved to discontinue the operations and liquidate the Associate. The legal formalities related to liquidation of the Associate were completed in 2020.

14 Investment at fair value through other comprehensive income

Investment at fair value through other comprehensive income amounting to Saudi Riyals 15.3 million (2019: Saudi Riyals 9.0 million) represents 2.5% equity interest in GCC Electrical Testing Laboratory Company (“GLC”), a closed joint stock company registered in the Kingdom of Saudi Arabia, with an objective to test and certify electrical products. GLC has not commenced commercial operations as of the date of the issuance of these consolidated financial statements. Also see Note 29.4.

15 Inventories

	2020	2019
Raw materials	146,375,127	114,201,581
Work-in-progress	56,825,278	58,091,672
Spare parts and supplies, not held for sale	5,147,153	4,384,435
Finished products	24,560,385	16,487,133
Goods-in-transit	38,213,389	24,925,804
	271,121,332	218,090,625
Less: allowance for inventory obsolescence	(9,402,876)	(7,233,341)
	261,718,456	210,857,284

Movement in allowance for inventory obsolescence is as follows:

	2020	2019
1 January	7,233,341	12,123,875
Charge (reversal) during the year	2,215,032	(4,890,534)
Write-offs	(45,497)	-
31 December	9,402,876	7,233,341

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16 Trade and other receivables

	Note	2020	2019
Trade receivables		409,705,033	444,721,300
Less: ECL allowance		(10,594,476)	(10,504,914)
		399,110,557	434,216,386
Related parties	28	29,374,596	8,964,304
Advances to suppliers		7,847,408	5,153,185
Advances to employees	28	11,398,035	11,864,271
Prepaid expenses		3,013,702	1,167,512
Value added tax refundable		1,149,296	6,241,885
Other		3,659,980	2,992,509
		455,553,574	470,600,052

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

The expected loss rates are based on the payment profiles of sales over a period of 60 months and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the inflation rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

(a) For the trade receivables, the ECL allowance as at 31 December 2020 and 2019 was determined as follows:

31 December	Days past due					Total
	0-90	91-180	181-365	365-730	Over 730	
2020						
Expected loss rate	0.0% to 0.3%	0.0% to 1.0%	0.1% to 2.2%	0.5% to 9.3%	40.0% to 100%	
Gross carrying amount - trade receivables	266,849,112	62,935,306	33,829,077	31,146,970	14,944,568	409,705,033
ECL allowance	449,464	596,525	402,686	2,002,554	7,143,247	10,594,476
31 December	Days past due					Total
	0-90	91-180	181-365	365-730	Over 730	
2019						
Expected loss rate	0.1% to 0.2%	0.2% to 1.5%	0.1% to 4.5%	0.2% to 8.7%	50.0% to 100%	
Gross carrying amount - trade receivables	284,390,140	65,735,906	47,616,169	36,677,707	10,301,378	444,721,300
ECL allowance	471,273	803,368	1,635,448	1,375,098	6,219,727	10,504,914

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16 Trade and other receivables (continued)

(b) Movement in ECL allowance is as follows:

	2020	2019
At 1 January	10,504,914	8,615,429
ECL allowance for the year	258,159	1,889,485
Receivables written-off during the year as uncollectible	(168,597)	-
At 31 December	10,594,476	10,504,914

(c) The net carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2020	2019
USD	137,690,115	124,791,452
Saudi Riyals	272,014,918	319,929,848
	409,705,033	444,721,300

(d) The Group does not hold any collateral as security.

17 Cash and cash equivalents

	2020	2019
Cash in hand	187,789	128,085
Cash at bank	70,604,383	24,014,148
	70,792,172	24,142,233

18 Share capital

The authorized, issued and fully paid up share capital comprises of 45,000,000 (31 December 2019: 45,000,000) ordinary shares of Saudi Riyals 10 each.

Following are the major shareholders of EIC:

Shareholders	Country of incorporation	Shareholding percentage	
		2020	2019
Ajda Industrial and Technical Services Company ("AITS")	Saudi Arabia	28.0%	-
Saad Abdullah AlTuwaijri Holding Company	Saudi Arabia	22.8%	22.8%
Al-Toukhi Trading Group	Saudi Arabia	-	14.8%
Ali Zaid Al Quraishi & Brothers Company ("AZAQ")	Saudi Arabia	-	26.6%

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19 Statutory reserve

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

20 Treasury shares

Treasury shares are shares bought back by the Company in advance for the purpose of issuing shares under the employee share incentive program. The Company purchased 312,867 shares during the year ended 31 December 2020 (2019: 187,133 shares) at prevailing market rates. As at 31 December 2020, the Group holds 500,000 treasury shares.

21 Employee share incentive program ("ESIP")

Qualifying employees of the Group are eligible to purchase the Company's shares (the "initial shares") either through upfront payment or payroll deductions over a period of three years. The value of such shares will be determined using the average share price of the preceding month, and should not exceed the employee's three basic salaries. Any employee who withdraws from the ESIP before completion of three years, will receive back the amount contributed for the initial shares. As of 31 December 2020, qualifying employees have subscribed to 192,683 shares.

Bonus type 1 shares:

The employees who have subscribed for the initial shares, are eligible for additional bonus shares which will be allocated to employees without any additional consideration, subject to completion of service condition of three years, based on employee categories as detailed below.

Employee designation	Number of shares for each year of service with the Group at the time of subscription with the ESIP
Employee	50 shares
Managers	75 shares
Executives	100 shares

Bonus type 2 shares:

The employees who continue in the scheme are eligible for additional bonus shares without any additional consideration, subject to completion of service condition as mentioned below, if they continue to hold the initial and bonus type 1 shares:

Numbers of years of service (from date of joining ESIP)	Additional shares for every 1,000 initial shares held
5 years	200 shares
10 years	450 shares
15 years	750 shares
20 years	1,100 shares
25 years	1,500 shares
28 years	2,000 shares

During 2020, the Group has recognized share-based compensation expense amounting to Saudi Riyals 0.6 million in the profit or loss with corresponding credit in share based compensation reserve in the consolidated statement of changes in equity.

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21 Employee share incentive program (“ESIP”) (continued)

The fair value for each option is estimated at the grant date using the Stochastic Simulation Pricing model, taking into account the terms and conditions upon which the share options were granted.

Following are the key assumptions used:

	31 December 2020
Share Price - this is the average share price of the preceding month at the date of joining ESIP	14.44 - 14.74
Risk-free interest rate	1.26%
Standard deviation of historical returns of Share Price	12%
Retirement age	60 years

Expected volatility has been based on an evaluation of the historical volatility of the Company’s share price, particularly over the historical period commensurate with the expected term. The expected term of the instruments has been based on historical experience and general option holder behavior.

22 Long-term borrowings

	2020	2019
Saudi Industrial Development Fund (“SIDF”)	44,400,000	44,400,000
Less: unamortized transaction cost	(346,952)	(583,661)
	<u>44,053,048</u>	<u>43,816,339</u>

Long-term borrowings are presented as follows:

Current maturity under current liabilities	12,815,568	7,963,291
Non-current portion	31,237,480	35,853,048
	<u>44,053,048</u>	<u>43,816,339</u>

Movement in unamortized transaction cost is as follows:

	2020	2019
1 January	583,661	855,862
Less: amortization	(236,709)	(272,201)
31 December	<u>346,952</u>	<u>583,661</u>

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22 Long-term borrowings (continued)

22.1 SIDF loan

This represents loan obtained by SPTC from SIDF of Saudi Riyals 56.9 million to finance the construction of SPTC's plant facilities, which was fully drawn by 31 December 2014. The loan is denominated in Saudi Riyals. During 2015, SPTC rescheduled the loan and as per the rescheduling agreement the loan is payable in fifteen un-equal semi-annual installments which commenced in 2017. During July 2020, SPTC again rescheduled the loan repayments with no changes to other terms of the borrowing agreement. The revised payment plan is as follows:

	2020	2019
Years ending 31 December:		
2020	-	8,200,000
2021	13,000,000	10,700,000
2022	14,750,000	12,300,000
2023	16,650,000	13,200,000
	44,400,000	44,400,000

The loan is secured by a mortgage on property, plant and equipment of SPTC as of 31 December 2020. The covenants of the loans agreements require SPTC to maintain certain level of financial conditions, place limitations on dividend distributions and on annual capital and rental expenditures.

As per the loan agreement between SPTC and SIDF, SPTC had to comply with certain loan covenants related to maintenance of financial ratios (current ratio 1:1 and liabilities to tangible net worth ratio 3:1). As of 31 December 2020, SPTC's current ratio was 0.9:1 and liabilities to tangible net worth ratio was 11:1. However, SIDF has issued a letter dated 30 December 2020 and has exempted SPTC to test the above covenants as of 31 December 2020.

23 Lease liabilities

	2020	2019
Future minimum lease payments	16,346,940	11,149,110
Less: Interest expense	(430,908)	(309,917)
Less: Principal element of lease payments	(1,597,482)	(472,573)
	(2,028,390)	(782,490)
	14,318,550	10,366,620
Less: Future finance cost not yet due	(3,028,362)	(3,068,614)
Net present value of minimum lease payment	11,290,188	7,298,006
Less: Current portion shown under current liabilities	(1,881,389)	(493,833)
Non-current portion of lease liabilities	9,408,799	6,804,173

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24 Employee benefit obligations

24.1 General description of the plan

The Group operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Employees' end-of-service benefit plans are unfunded plans and the benefit payment obligation are met when they fall due upon termination of employment.

	2020	2019
At 1 January	67,975,619	65,678,091
Current service cost	5,300,693	5,194,146
Interest expense	1,844,523	2,709,236
Payments	(5,087,236)	(9,594,916)
Remeasurements	3,861,334	3,989,062
At 31 December	<u>73,894,933</u>	<u>67,975,619</u>

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

The amounts recognised in the consolidated statement of profit or loss and other comprehensive income related to employee benefit obligations are as follows:

	2020	2019
Current service cost	5,300,693	5,194,146
Interest expense	1,844,523	2,709,236
Total amount recognised in profit or loss	<u>7,145,216</u>	<u>7,903,382</u>
<u>Remeasurements</u>		
Loss from change in financial assumptions	1,041,852	885,717
Loss from change in demographic assumptions	-	185
Experience losses	2,819,482	3,103,160
Total amount recognised in other comprehensive income	<u>3,861,334</u>	<u>3,989,062</u>

24.3 Key actuarial assumptions

	2020	2019
Discount rate	1.70%	2.75%
Salary growth rate	1.0 - 1.7%	1.0 - 2.8%

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24 Employee benefit obligations (continued)

24.4 Sensitivity analysis for actuarial assumptions

	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	0.5%	(2,416,813)	2,569,057
Salary growth rate	0.5%	0.5%	2,038,093	(1,940,848)

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

24.5 Expected maturity analysis

The weighted average duration of the defined benefit obligation is 6.64 years (2019: 6.68 years). The expected maturity analysis of undiscounted employee benefit obligations is as follows:

	Less than a year	Between 1 - 2 years	Between 2 - 5 years	Over 5 years	Total
31 December 2020	10,633,814	10,301,057	21,531,463	35,241,221	77,707,555
31 December 2019	7,117,077	19,348,456	13,418,823	34,401,961	74,286,317

25 Trade and other payables

	Note	2020	2019
Trade payables		89,638,894	59,692,984
Related parties	28	50,686	2,142,076
Accrued expenses		46,728,129	39,368,850
Advances from customers		91,257,021	38,401,861
Warranty provisions and liquidity damages		1,430,315	1,437,742
Value added tax payable		1,133,893	265,229
Other		5,403,922	7,189,286
		235,642,860	148,498,028

26 Short-term murabaha borrowings

These represent short-term murabaha borrowings at 31 December 2020 and 2019 obtained from commercial banks and bear financial charges at prevailing market rates which are based on Saudi inter-bank offer rate. The loans are principally secured by corporate guarantees provided by the Company.

During 2020, the Group obtained and repaid short-term murabaha borrowings of Saudi Riyals 457.5 million and Saudi Riyals 490.7 million respectively.

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27 Zakat matters

27.1 Components of zakat base

The Company and its subsidiaries are subject to zakat. The Group files zakat return on a consolidated basis for the Company and its wholly owned subsidiaries. The significant components of the zakat base of each company under zakat regulations principally comprised of shareholders' equity, provisions at the beginning of year, long-term borrowings and adjusted net income, less deduction for the net book value of property, plant and equipment, investments, spare parts and supplies and certain other items.

27.2 Provision for zakat

	2020	2019
At 1 January	12,587,101	14,217,759
Provision	10,722,158	9,667,220
Payments	(10,819,520)	(11,297,878)
At 31 December	12,489,739	12,587,101

27.3 Status of certificates and final assessments

The Group has obtained zakat certificates from GAZT for the years through 2019. GAZT has finalized the Company's zakat assessments for the years through 2014. Assessments for the years 2015 to 2019 are currently under review by GAZT.

During 2018, the Group received additional zakat assessments from GAZT for the years from 2005 through 2014 amounting to Saudi Riyals 75.4 million. The Company has signed an agreement with its founding shareholders, prior to its initial public offering in 2014, whereby any additional zakat liability pertaining to the year 2014 or earlier will be borne by its founding shareholders. In 2019, the Group accepted and paid an amount of Saudi Riyals 1.6 million related to the years from 2011 to 2014 and filed appeals against the remaining amounts. Based on appeals, GAZT accepted certain positions taken by the Group and issued the revised assessments amounting to Saudi Riyals 33.0 million. The Group filed appeals against such revised assessments. During 2020, the Group has accepted an amount of Saudi Riyals 12.9 million as final assessments for the respective years and paid such amount to GAZT. All such amounts were reimbursed by the founding shareholders.

During 2020, the Group received additional zakat and withholding tax assessments for the years from 2015 to 2018 amounting to Saudi Riyals 6.4 million and Saudi Riyals 1.3 million respectively. The Group has filed appeals against such assessments with GAZT and strongly believes that their contentions are in accordance with the applicable GAZT regulations and no material liability will arise upon finalisation of such assessments.

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28 Related party transactions and balances

Related parties comprise the shareholders, directors, associate company, key management personnel. Related parties also include business entities in which certain directors or senior management have an interest (other related parties).

(a) Following are the significant transactions entered into by the Group:

Nature of transactions and relationship	Year ended 31 December	
	2020	2019
Revenue from other related parties	24,129,280	3,681,562
Costs and expenses charged by other related parties	1,099,777	768,712
Technical assistance fee charged by other related parties	-	836,235

(b) Key management personnel compensation:

	Year ended 31 December	
	2020	2019
Salaries and other short-term employee benefits	6,388,557	6,368,738
Employee benefit obligations	464,036	465,839
	6,852,593	6,834,577

Board of directors' fee for the year ended 31 December 2020 was Saudi Riyals 1.6 million (2019: Saudi Riyals 1.6 million).

Advances to employees includes advances to a key management personnel amounting to Saudi Riyals 1.3 million as at 31 December 2020 (2019: Saudi Riyals 1.4 million).

(c) Related party balances

(i) Due from related parties

	2020	2019
<u>Shareholders</u>		
Ali Zaid Al Quraishi & Brothers Company	298,033	1,900,735
Saad Abdullah AlTuwaijri Holding Company	239,124	1,454,520
Al-Toukhi Trading Group	-	942,158
Ahmad Nasser Al Swaidan	187,018	281,174

Other related parties

Al Toukhi Company for Industrial Trading and Contracting	28,650,421	3,775,562
CG Holdings Belgium N.V.	-	179,181

Associate company

CG Power Solutions Saudi Arabia	-	430,974
	29,374,596	8,964,304

(ii) Due to related parties

	2020	2019
<u>Associate company</u>		
CG Power Solutions Saudi Arabia	-	1,880,790
<u>Other related party</u>		
CG Power Systems Belgium N.V.	-	261,286
Ali Zaid Al Qureshi and Partners Electrical Services of Saudi Arabia	50,686	-
	50,686	2,142,076

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29 Financial risk management

29.1 Financial risk factors

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

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

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

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

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Control department. Internal Control department undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Market risk

(i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are primarily in Saudi Riyals and United States Dollars. Since Saudi Riyal is pegged to United States Dollars, management of the Group believes that the currency risk for the financial instruments is not significant.

(ii) Fair value and cash flow interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group borrows at interest rates on commercial terms.

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The fixed rate borrowings carried at amortised cost are not subject to interest rate risk, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. Hence, the Group's exposure to fair value interest rate risk is not material.

The short-term borrowings interest rates with banks are subject to change upon re-negotiation of the facilities which takes place on at frequent intervals in the case of other short term murabaha borrowings. At 31 December 2020, if the interest rate were to shift by 1%, there would be a maximum increase or decrease in the interest expense by Saudi Riyals 1.7 million (2019: Saudi Riyals 1.8 million).

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29 Financial risk management (continued)

29.1 Financial risk factors (continued)

(a) *Market risk* (continued)

(iii) Price risk

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

(b) *Credit risk*

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from cash and cash equivalents as well as credit exposures to customers, including outstanding amounts from related parties and committed transactions (refer to note 30 for credit quality of financial instruments).

With respect to exposures with banks, management considers the credit risk exposure to be minimal as the Group deals with reputed local banks only. Management does not expect any losses from non-performance by these counterparties.

The Group has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of receivables.

The Group establishes ECL allowance that represents its estimate of potential losses in respect of trade and other receivables. The main components of this loss are a specific loss component that relates to individual exposures and a collective loss component established for similar assets in respect of any potential losses that may have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. At 31 December 2020, 13.2% of accounts receivables were due from one customer (2019: 22.0% of accounts receivables were due from one customer). Management believes that this concentration of credit risk is mitigated as the customer has established track record of regular and timely payments.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry in which customers operate, has less of an influence on credit risk.

The Group categorises its trade receivables as due from corporates and Government. Major classification of trade receivables as at 31 December was as follows:

	2020		2019	
	Amount	%	Amount	%
Corporates	362,827,541	89%	400,165,610	90%
Government	46,877,492	11%	44,555,690	10%
	409,705,033	100%	444,721,300	100%

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

While amounts due from related parties and cash and cash equivalents are also subject to impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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29 Financial risk management (continued)

29.1 Financial risk factors (continued)

(c) *Liquidity risk*

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

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters. In addition, the Group has access to credit facilities.

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

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the remaining contractual maturity period at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	Less than one year	1 to 2 Years	2 to 5 years	Over 5 years	Total
2020					
Long-term borrowings	13,000,000	14,750,000	16,650,000	-	44,400,000
Future interest on long-term borrowings	550,000	550,000	550,000	-	1,650,000
Lease liabilities	1,881,389	2,752,178	2,512,090	4,144,531	11,290,188
Future interest on lease liabilities	396,177	328,439	637,635	1,666,111	3,028,362
Short-term murabaha borrowings	151,173,913	-	-	-	151,173,913
Trade and other payables	141,821,631	-	-	-	141,821,631
	308,823,110	18,380,617	20,349,725	5,810,642	353,364,094
	Less than one year	1 to 2 Years	2 to 5 years	Over 5 years	Total
2019					
Long-term borrowings	8,200,000	10,700,000	25,500,000	-	44,400,000
Future interest on long-term borrowings	550,000	550,000	1,100,000	-	2,200,000
Lease liabilities	493,833	515,752	1,679,371	4,609,050	7,298,006
Future interest on lease liabilities	288,657	266,738	668,099	1,845,120	3,068,614
Short-term murabaha borrowings	184,419,919	-	-	-	184,419,919
Trade and other payables	103,930,109	-	-	-	103,930,109
	297,882,518	12,032,490	28,947,470	6,454,170	345,316,648

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29 Financial risk management (continued)

29.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

The gearing ratios at 31 December were as follows:

	2020	2019
Total borrowings	195,226,961	228,236,258
Lease liabilities	11,290,188	7,298,006
Less: cash and cash equivalents	(70,792,172)	(24,142,233)
Net debt	135,724,977	211,392,031
Total equity	565,515,546	551,989,400
Total capital	701,240,523	763,381,431
Gearing ratio	19%	28%

29.3 Net debt reconciliation

The net debt of the Group is as follows:

	2020	2019
Cash and cash equivalents	70,792,172	24,142,233
Lease liabilities	(11,290,188)	(7,298,006)
Borrowings	(195,226,961)	(228,236,258)
Net debt	(135,724,977)	(211,392,031)

The Group's net debt reconciliation is as follows:

	Cash and cash equivalents	Lease liabilities	Borrowings	Total
1 January 2019	27,928,776	-	(222,355,346)	(194,426,570)
Recognised against lease contracts	-	(7,770,579)	-	(7,770,579)
Cashflows	(3,786,543)	472,573	(5,880,912)	(9,194,882)
31 December 2019	24,142,233	(7,298,006)	(228,236,258)	(211,392,031)
Recognised against lease contracts	-	(5,589,664)	-	(5,589,664)
Cashflows	46,649,939	1,597,482	33,009,297	81,256,718
31 December 2020	70,792,172	(11,290,188)	(195,226,961)	(135,724,977)

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29 Financial risk management (continued)

29.4 Fair value estimation

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

The Group has an established control framework with respect to the measurement of fair values. Management has overall responsibility for overseeing all significant fair value measurements, including level three fair values.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuations issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The table below presents the financial assets at their fair values as at 31 December 2020 and 2019 based on the fair value hierarchy:

Financial asset at FVOCI	Level 1	Level 2	Level 3	Total
2020	-	-	15,300,000	15,300,000
2019	-	-	9,000,000	9,000,000

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. During the years ended 31 December 2020 and 2019, there were no transfers into or out of Level 3 fair value measurements. Investment of Saudi Riyals 15.3 million (2019: Saudi Riyals 9.0 million) represents cost of investment in GLC which approximates to its fair value.

As at 31 December 2020 and 2019, the face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair values. The fair values of the non-current financial liabilities are considered to approximate to their carrying amounts as these carry interest rates which are based on market interest rates.

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30 Financial instruments

(a) Categories of financial instruments

The Group classifies its financial instruments into the following measurement categories:

2020	At amortised cost	Financial asset at FVOCI	Total
Assets as per statement of financial position			
Financial asset at FVOCI	-	15,300,000	15,300,000
Trade and other receivables	432,145,133	-	432,145,133
Cash and cash equivalents	70,792,172	-	70,792,172
Total	502,937,305	15,300,000	518,237,305

2019	At amortised cost	Financial asset at FVOCI	Total
Assets as per statement of financial position			
Financial asset at FVOCI	-	9,000,000	9,000,000
Trade and other receivables	446,173,199	-	446,173,199
Cash and cash equivalents	24,142,233	-	24,142,233
Total	470,315,432	9,000,000	479,315,432

31 December	At amortised cost	
Liabilities as per statement of financial position	2020	2019
Long-term borrowings	31,237,480	35,853,048
Current portion of long-term borrowings	12,815,568	7,963,291
Lease liabilities	11,290,188	7,298,006
Trade and other payables	141,821,631	103,930,109
Short-term murabaha borrowings	151,173,913	184,419,919
Total	348,338,780	339,464,373

At 31 December 2020, for the purpose of the financial instruments disclosure, non-financial assets and non-financial liabilities amounting to Saudi Riyals 23.4 million and Saudi Riyals 93.8 million respectively (2019: Saudi Riyals 24.4 million and Saudi Riyals 44.6 million, respectively) have been excluded from trade and other receivables and trade and other payables, respectively.

(b) Credit quality of financial assets

As per the credit policy of the Group, customers are extended a credit period of up to 90 days in the normal course of business. The credit quality of financial assets is determined by the customers' history of meeting commitments, market intelligence related information and management's trade experience. External ratings generally are not available in the environment in which the Group operates.

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30 Financial instruments (continued)

(b) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade receivable - Counterparties without external credit rating

	2020	2019
Not due	266,849,112	284,390,140
Due above 90 days	142,855,921	160,331,160
Total	409,705,033	444,721,300

Cash at bank

	Rating as per Moody's Investors Service	2020	2019
Bank A	P-1	23,622,750	5,786,540
Bank B	P-1	27,759,866	6,606,241
Bank C	P-1	6,802,827	383,759
Bank D	P-1	1,378,540	3,643,496
Bank E	P-2	951,108	1,153,374
Bank F	P-1	5,753,192	5,035,578
Bank G	P-1	2,155,439	646,281
Bank H	P-1	186,926	437,440
Bank I	P-2	95,165	107,344
Bank J	P-1	1,740,643	56,438
Bank K	P-1	100,486	100,373
Bank L	P-1	57,441	57,284
Total		70,604,383	24,014,148

31 Cash generated from operations

	Note	Year ended 31 December	
		2020	2019
Profit (loss) before zakat		34,644,841	(30,525,464)
<u>Adjustments for</u>			
Depreciation and amortization	10, 11, 12	25,233,370	24,888,788
Loss on disposal of property and equipment	10	-	229,838
ECL allowance	16	(258,159)	1,889,485
Allowance (reversal) for inventory obsolescence	15	2,215,032	(4,890,534)
Share in net loss of an investment accounted for using the equity method	13	53,400	82,445
Financial costs	9	7,469,793	11,080,714
Share based compensation expense	21	629,375	-
Employee benefit obligations	24	7,145,216	7,903,382
<u>Changes in operating assets and liabilities:</u>			
Employee benefit obligations paid	24	(5,087,236)	(9,594,916)
Decrease (increase) in trade and other receivables		15,304,637	(54,735,016)
(Increase) decrease in inventories		(53,076,204)	123,093,579
Decrease (increase) in trade and other payables		88,133,961	(42,934,951)
Cash generated from operations		122,408,026	26,487,350

**ELECTRICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)**

Notes to the consolidated financial statements for the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

32 Basic and diluted earnings (loss) per share

Basic and diluted earnings (loss) per share are calculated as follows:

	<u>Year ended 31 December</u>	
	<u>2020</u>	<u>2019</u>
Profit (loss) attributable to the shareholders of Electrical Industries Company	23,922,683	(40,192,684)
Weighted average number of ordinary shares for basic earnings per share*	44,760,722	45,000,000
Weighted average number of ordinary shares deemed to be issued under ESIP	273,692	-
Weighted average number of ordinary shares for the purpose of diluted earnings	45,034,414	45,000,000
Basic earnings (loss) per share	0.53	(0.89)
Diluted earnings (loss) per share	0.53	(0.89)

* Weighted average number of ordinary shares outstanding as at 31 December 2020 are adjusted by weighted average number of treasury shares bought back by the Company for the purpose of issuing shares under the employee share incentive program (see Note 20).

33 Contingencies and commitments

- (i) At 31 December 2020, the Group was contingently liable for bank guarantees and letters of credit issued in the normal course of business amounting to Saudi Riyals 332.8 million (2019: Saudi Riyals 251.9 million).
- (ii) The capital expenditure contracted by the Group but not yet incurred till 31 December 2020 was approximately Saudi Riyals 5.0 million (2019: Saudi Riyals 4.3 million).

34 Dividends

The Company's Board of Directors, at their meeting held on 16 March 2021, has proposed cash dividends of Saudi Riyals 0.5 per share totalling to Saudi Riyals 22.5 million which is subject to the approval of annual general meeting.