

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

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

**UNITED ELECTRONICS COMPANY**  
**(A Saudi Joint Stock Company)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2023**

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# Independent auditor's report to the shareholders of United Electronics Company

## Report on the audit of the consolidated financial statements

### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of United Electronics Company (the "Company") and its subsidiaries (together the "Group") as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023;
- the consolidated statement of financial position as at 31 December 2023;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

### Basis for opinion

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

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

### Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), endorsed in the Kingdom of Saudi Arabia (the "Code"), that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements.

### Our audit approach

#### Overview

Key audit matter	Expected credit loss allowance against investment in Islamic financing contracts
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As part of designing our audit, we determined materiality and assessed the risk 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 amount other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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

### Our audit approach (continued)

#### Overview (continued)

#### Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
<p style="color: #C85A3D;"><i>Expected credit loss allowance against investment in Islamic financing contracts</i></p> <p>As at 31 December 2023, the Group's net investment in Islamic financing contracts was Saudi Riyals 2.0 billion against which an expected credit loss ("ECL") allowance of Saudi Riyals 89.0 million was maintained.</p> <p>The determination of ECL involves significant management judgement. The key areas of judgement used by management to calculate the ECL include:</p> <ul style="list-style-type: none"> <li>• Categorisation of receivables into stages 1, 2 or 3 based on the identification of: <ul style="list-style-type: none"> <li>(i) exposures with a significant increase in credit risk ("SICR") since their origination; and</li> <li>(ii) individually impaired / defaulted exposures.</li> </ul> </li> <li>• Determining assumptions used in the ECL model for probability of default ("PD"), loss given default ("LGD") and exposures at default ("EAD") including but not limited to the expected future cash flows, based on historic data as well as developing and incorporating forward looking information (such as macroeconomic factors and the associated scenarios and expected probability weights) in line with the requirements of International Financial Reporting Standard 9 'Financial Instruments' ("IFRS 9").</li> </ul>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• Assessed the accounting policies adopted and the underlying methodology and assumptions applied by management in the ECL model to determine the ECL allowance for investment in Islamic financing contracts and compared them against the requirements of IFRS 9.</li> <li>• Evaluated and tested the design, implementation and the operating effectiveness of key controls over the ECL model including: <ul style="list-style-type: none"> <li>(i) governance and approval of key assumptions used;</li> <li>(ii) classification of exposures into stages 1, 2 or 3, criteria for identification of SICR and the determination of individually impaired / defaulted exposures; and</li> <li>(iii) integrity of data inputs into the ECL model.</li> </ul> </li> <li>• Assessed, for a selected sample of Islamic financing contracts, the appropriateness of the staging classification and management's computation of the ECL allowance.</li> </ul>



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

### *Our audit approach (continued)*

#### **Overview (continued)**

#### **Key audit matters (continued)**

Key audit matter	How our audit addressed the Key audit matter
<p>We considered ECL against investment in Islamic financing contracts as of 31 December 2023 as a key audit matter in view of the judgements involved, including the impact of certain changes made to the underlying methodology and assumptions (choice of variable inputs and their interdependencies) during the year.</p> <p>Refer to the material accounting policies in Note 2.25 for the impairment of financing contracts; Note 3 which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses; and Notes 15 and 31 which contain the disclosures of impairment losses, impairment allowance assessment methodology, credit quality analysis, key assumptions and factors considered in determination of ECL.</p>	<ul style="list-style-type: none"><li>Involved our experts to assist us in reviewing model calculations, evaluating interrelated inputs and assessing the reasonableness of assumptions used in the ECL model, including those used to determine PD, LGD and EAD including but not limited to actual past performance, expected future cash flows, changes from assumptions used in the prior year, macroeconomic variables, forecasted macroeconomic scenarios and probability weights.</li><li>Assessed the rationale for the changes to the underlying methodology and assumptions to determine the ECL made during the year and the application of such changes to the ECL model.</li><li>Assessed the adequacy of disclosures in the consolidated financial statements.</li></ul>

### *Other information*

Management is responsible for the other information. The other information comprises information included in the Group's 2023 annual 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 Annual Report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



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

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

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

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

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

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

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

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

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



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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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.

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**PricewaterhouseCoopers**

Ali A. Alotaibi  
License Number 379

12 February 2024





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

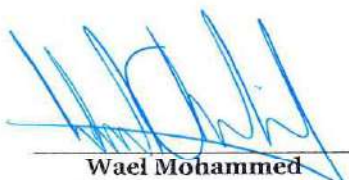
**Consolidated statement of profit or loss and other comprehensive income**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended 31 December	
		2023	2022
Sales and services		5,675,352	5,609,070
Income from Islamic financing contracts		525,336	421,996
<b>Total revenue</b>	4	<b>6,200,688</b>	<b>6,031,066</b>
Cost of revenue		(4,838,808)	(4,766,002)
<b>Gross profit</b>		<b>1,361,880</b>	<b>1,265,064</b>
Selling and distribution expenses	5	(557,148)	(556,338)
General and administrative expenses	6	(253,865)	(183,824)
Net impairment losses on financial assets	14, 15	(70,228)	(40,755)
Other expenses		(5,584)	(4,372)
Other income	7	6,231	42,478
Finance charges	8	(62,103)	(50,107)
<b>Profit before zakat and income tax</b>		<b>419,183</b>	<b>472,146</b>
Zakat expense	26	(26,872)	(34,413)
Income tax (expense) credit	26	(1,849)	2,441
<b>Net profit for the year</b>		<b>390,462</b>	<b>440,174</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of employee benefit obligations	24	276	77
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		(3,530)	59
<b>Other comprehensive (loss) income for the year</b>		<b>(3,254)</b>	<b>136</b>
<b>Total comprehensive income for the year</b>		<b>387,208</b>	<b>440,310</b>
<b>Earnings per share (Saudi Riyals)</b>			
Basic earnings per share	29	5.12	5.85
Diluted earnings per share	29	4.88	5.50

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

The consolidated financial statements including notes and other explanatory information were authorised for issue by the Board of Directors on 11 February 2024 and were signed on their behalf by:

  
**Wael Mohammed  
Mohammed Khalil**

**Chief Financial Officer**

  
**Mohammed Galal Ali  
Fahmy**

**Managing Director  
and Chief Executive  
Officer**

  
**Abduljabbar  
AbdulRahman  
Mohammed  
AlAbduljabbar**

**Chairman of the Board of  
Directors**



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

	Note	As at 31 December	
		2023	2022
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	9	485,931	495,134
Right-of-use assets	10	451,306	451,185
Net investment in finance leases	11	44,147	46,908
Intangible assets	12	60,749	54,565
Goodwill	13	529	529
Trade and other receivables	14	8,698	6,395
Investment in Islamic financing contracts	15	1,028,152	894,032
<b>Total non-current assets</b>		<b>2,079,512</b>	<b>1,948,748</b>
<b>Current assets</b>			
Inventories	16	1,187,427	1,079,632
Net investment in finance leases	11	3,311	2,095
Trade and other receivables	14	173,687	129,794
Investment in Islamic financing contracts	15	839,233	663,162
Cash and cash equivalents	17	151,272	146,669
<b>Total current assets</b>		<b>2,354,930</b>	<b>2,021,352</b>
Assets held for sale	18	7,069	-
<b>Total assets</b>		<b>4,441,511</b>	<b>3,970,100</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	19	800,000	800,000
Statutory reserve	20	-	64,158
Other reserves		14,713	3,657
Retained earnings		515,113	327,136
Treasury shares	30	(45,461)	(55,651)
<b>Net equity</b>		<b>1,284,365</b>	<b>1,139,300</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred revenue	22	139,478	126,433
Lease liabilities	23	588,699	573,319
Borrowings	21	664,739	401,667
Employee benefit obligations	24	84,925	79,090
<b>Total non-current liabilities</b>		<b>1,477,841</b>	<b>1,180,509</b>

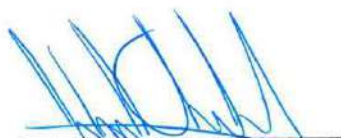
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UNITED ELECTRONICS COMPANY  
(A Saudi Joint Stock Company)  
**Consolidated statement of financial position** (continued)  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	As at 31 December	
		2023	2022
<b>Current liabilities</b>			
Trade and other payables	25	776,600	690,155
Deferred revenue	22	140,471	113,297
Lease liabilities	23	30,080	28,255
Borrowings	21	688,620	777,384
Zakat and income tax payable	26	38,505	41,200
		1,674,276	1,650,291
Liabilities directly associated with assets classified as held for sale	18	5,029	-
<b>Total current liabilities</b>		1,679,305	1,650,291
<b>Total liabilities</b>		3,157,146	2,830,800
<b>Total equity and liabilities</b>		4,441,511	3,970,100

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

The consolidated financial statements including notes and other explanatory information were authorised for issue by the Board of Directors on 11 February 2024 and were signed on their behalf by:



Wael Mohammed  
Mohammed Khalil

Chief Financial Officer



Mohammed Galal Ali  
Fahmy

Managing Director  
and Chief Executive  
Officer



Abduljabbar  
AbdulRahman  
Mohammed  
AlAbduljabbar

Chairman of the Board of  
Directors

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

Note	Share capital	Statutory reserve	Share based payment reserve	Other reserves			Retained earnings	Treasury shares	Net equity
				Foreign currency translation reserve	Actuarial reserve	Total other reserves			
At 1 January 2022	600,000	69,481	21,851	(271)	(6,176)	15,404	339,672	(32,000)	992,557
Issuance of bonus shares	200,000	(49,340)	-	-	-	-	(115,126)	(35,534)	-
Profit for the year	-	-	-	-	-	-	440,174	-	440,174
Other comprehensive income for the year	-	-	-	59	77	136	-	-	136
<b>Total comprehensive income for the year</b>	-	-	-	59	77	136	440,174	-	440,310
Transfer to statutory reserve	20	44,017	-	-	-	-	(44,017)	-	-
Dividends	33	-	-	-	-	-	(293,567)	-	(293,567)
Issue of treasury shares to employees	-	-	(11,883)	-	-	(11,883)	-	11,883	-
<b>At 31 December 2022</b>	<b>800,000</b>	<b>64,158</b>	<b>9,968</b>	<b>(212)</b>	<b>(6,099)</b>	<b>3,657</b>	<b>327,136</b>	<b>(55,651)</b>	<b>1,139,300</b>
At 1 January 2023	800,000	64,158	9,968	(212)	(6,099)	3,657	327,136	(55,651)	1,139,300
Profit for the year	-	-	-	-	-	-	390,462	-	390,462
Other comprehensive loss for the year	-	-	-	(3,530)	276	(3,254)	-	-	(3,254)
<b>Total comprehensive income for the year</b>	-	-	-	(3,530)	276	(3,254)	390,462	-	387,208
Transfer from statutory reserve to retained earnings	20	(64,158)	-	-	-	-	64,158	-	-
Dividends	33	-	-	-	-	-	(266,643)	-	(266,643)
Employee share schemes – value of employee services	-	-	24,500	-	-	24,500	-	-	24,500
Issue of treasury shares to employees	-	-	(10,190)	-	-	(10,190)	-	10,190	-
<b>At 31 December 2023</b>	<b>800,000</b>	<b>-</b>	<b>24,278</b>	<b>(3,742)</b>	<b>(5,823)</b>	<b>14,713</b>	<b>515,113</b>	<b>(45,461)</b>	<b>1,284,365</b>

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

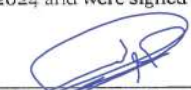
The consolidated financial statements including notes and other explanatory information were authorized for issue by the Board of Directors on 11 February 2024 and were signed on their behalf by:

  
Wael Mohammed Mohammed Khalil

Chief Financial Officer

  
Mohamed Galal Ali Fahmy

Managing Director and Chief Executive Officer

  
Abduljabbar AbdulRahman Mohammed  
AlAbduljabbar

Chairman of the Board of Directors



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

		<b>Year ended 31 December</b>	
	<b>Note</b>	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities</b>			
Profit before zakat and income tax		419,183	472,146
<u>Adjustments for:</u>			
Depreciation of property and equipment	9	49,633	46,887
Property and equipment written-off	9	48	743
Gain on disposal of property and equipment		(93)	(38)
Depreciation of right-of-use assets	10	50,143	48,971
Gain on recognition of net investment in finance leases	7	-	(13,635)
Amortization of intangible assets	12	14,794	13,148
Employee share schemes - value of employee services		24,500	-
Amortization of extended warranty program	22	(149,454)	(121,233)
Net impairment losses on financial assets	15	70,228	40,755
Gain on termination of a lease	7	(146)	(6,502)
Finance income from net investment in finance leases		(2,862)	(2,491)
Finance charges		125,346	77,885
Provision for employee benefit obligations	24	12,345	12,345
<u>Changes in operating assets and liabilities:</u>			
Increase in trade and other receivables		(56,706)	(11,891)
Increase in investment in Islamic financing contracts		(370,419)	(384,921)
(Increase) decrease in inventories		(107,795)	122,885
Increase (decrease) in trade and other payables		86,042	(425,200)
Increase in deferred revenue from extended warranty program		189,673	165,806
Cash generated from operations		354,460	35,660
Finance income received		4,407	1,699
Employee benefit obligations paid	24	(6,234)	(7,053)
Finance charges paid		(125,398)	(71,752)
Zakat and income tax paid	25	(31,416)	(26,813)
<b>Net cash inflow (outflow) from operating activities</b>		<b>195,819</b>	<b>(68,259)</b>
<b>Cash flows from investing activities</b>			
Payments for purchases of property and equipment	9	(43,775)	(91,771)
Payments for additions to intangible assets	12	(20,978)	(12,863)
Proceeds from disposal of property and equipment		309	454
<b>Net cash outflow from investing activities</b>		<b>(64,444)</b>	<b>(104,180)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long-term borrowings		774,500	396,000
Repayment of long-term borrowings		(416,897)	(239,046)
Proceeds from short-term borrowings		1,893,922	1,818,166
Repayment of short-term borrowings		(2,077,165)	(1,488,000)
Dividends paid to the Company's shareholders	33	(266,643)	(293,567)
Principal elements of lease payments		(33,157)	(47,603)
<b>Net cash (outflow) inflow from financing activities</b>		<b>(125,440)</b>	<b>145,950</b>

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

		<b>Year ended 31 December</b>	
	<b>Note</b>	<b>2023</b>	<b>2022</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>5,935</b>	<b>(26,489)</b>
Cash and cash equivalents at beginning of year		146,669	173,158
<b>Cash and cash equivalents at end of year</b>	<b>17</b>	<b>152,604</b>	<b>146,669</b>
<b>Non-cash investing and financing activities:</b>			
Reversal of lease liabilities on termination of a lease	23	414	25,997
Reversal of right-of-use assets on termination of a lease	10	268	19,495
Right-of-use assets recorded against lease liabilities	10	61,163	100,600
Recognition of net investment in finance leases	11	-	36,575
Right-of-use assets derecognized against recognition of net investment in finance leases	10	-	22,940
Remeasurement of lease liabilities against adjustment to right-of-use asset	23	-	22,529
Depreciation of right-of-use assets capitalized to property and equipment	9, 10	549	4,307
Transfer of property and equipment to assets held for sale	18	3,616	-
Transfer of trade and other receivables to assets held for sale	18	2,121	-
Transfer of trade and other payables to assets held for sale	18	5,029	-

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


The consolidated financial statements including notes and other explanatory information were authorised for issue by the Board of Directors on 11 February 2024 and were signed on their behalf by:

  
**Wael Mohammed  
Mohammed Khalil**

**Chief Financial Officer**

  
**Mohammed Galal Ali  
Fahmy**

**Managing Director  
and Chief Executive  
Officer**

  
**Abduljabbar AbdulRahman  
Mohammed AlAbduljabbar**

**Chairman of the Board of  
Directors**

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

**1 General information**

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

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

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

The accompanying consolidated financial statements include accounts of the Company and its following wholly owned direct and indirect subsidiaries:

<b>Subsidiaries</b>	<b>Country of incorporation</b>
United Company for Maintenance Services (“UCMS”)	Kingdom of Saudi Arabia
United International Holding Company (“UIHC”)	Kingdom of Saudi Arabia
United Company for Financial Services (“UCFS”)	Kingdom of Saudi Arabia
Procco Financial Services W.L.L. (“Procco”)	Kingdom of Bahrain
United Electronics Company Extra W.L.L. (“eXtra Bahrain”)	Kingdom of Bahrain
United Electronics Company Extra L.L.C. (“eXtra Oman”)	Sultanate of Oman
Extra Electronics Company (“eXtra Egypt”)	Arab Republic of Egypt
Extra for Import (“eXtra Import”)	Arab Republic of Egypt

As at 31 December 2023, the Group had a total of 53 branches (31 December 2022: 54 branches) out of which 48 branches are in the Kingdom of Saudi Arabia (31 December 2022: 48 branches in the Kingdom of Saudi Arabia).

During the year ended 31 December 2023, there were no significant changes in the terms of the financing arrangements offered by the Group such as profit rates, tenures of the financing contracts, criterion for finance amounts disbursed etc. However, during the year ended 31 December 2023, certain changes were made to the underlying methodology and assumptions (choice of variable inputs and their interdependencies) used by management in developing the model of computation of Expected Credit Loss (ECL) on investment in Islamic financing contracts. A detailed analysis of such change in estimate has been included in Note 31. Also see Note 15.

The accompanying consolidated financial statements were authorized for issue by the Group’s Board of Directors on 11 February 2024.

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**2 Material accounting policies**

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

**2.1 Basis of preparation**

*(i) Statement of compliance*

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

*(ii) Historical cost convention*

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

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

A number of new and amended standards became applicable for the current reporting period.

- Narrow scope amendments to IAS 1 'Presentation of financial statements' ("IAS 1"), Practice statement 2 and IAS 8 'Accounting policies, accounting estimates and errors' ("IAS 8");
- Amendment to IAS 12 'Taxation' ("IAS 12") – deferred tax related to assets and liabilities arising from a single transaction;
- Amendment to IAS 12 - International tax reform; and
- IFRS 17 – Insurance contracts ("IFRS 17")

The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

With respect to IFRS 17, pursuant to the regulations in Kingdom of Saudi Arabia, the Group is required to write-off exposures for deceased customers and accordingly there is an insurance risk under the Islamic financing contracts. Upon adoption of IFRS 17 effective from 1 January 2023, the Group continues to account for such exposures under IFRS 9 'Financial Instruments' instead of IFRS 17, given it meets the scope exemption under IFRS 17. Accordingly, based on management's assessment, there was no impact upon adoption of IFRS 17 and the impact of such exposure under IFRS 9 is immaterial considering limited history of deceased customers.

*(iv) Standards issued but not yet effective*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted by the Group.

- Amendment to IFRS 16 'Leases' ("IFRS 16") – Leases on sale and leaseback;
- Amendments to IAS 1, Presentation of financial statements' - Non-current liabilities with covenants;
- Amendment to IAS 7 'Cash flow statements' ("IAS 7") and IFRS 7 'Financial instruments: Disclosures' ("IFRS 7") – Supplier finance; and
- Amendments to IAS 21 'Foreign currencies' ("IAS 21") - Lack of Exchangeability.

Management is in the process of assessing the impact of such new standards and interpretations on its consolidated financial statements.



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**2 Material accounting policies** (continued)

**2.2 Foreign currencies**

*(a) Functional and presentation currency*

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

*(b) Transaction and balances*

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

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

*(c) Group entities*

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

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

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

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

**2.3 Basis of consolidation**

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

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

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**2 Material accounting policies (continued)**

**2.3 Basis of consolidation (continued)**

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

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

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

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

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

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

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

**2.4 Property and equipment**

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

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**2 Material accounting policies** (continued)

**2.4 Property and equipment** (continued)

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

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

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

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

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

**2.5 Leases**

The Group assesses at inception of a contract whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has leases for stores, lands, warehouses and office buildings where the rental contracts are typically for fixed periods ranging from 1 to 20 years but may have extension options.

*(i) The Group as a lessee*

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

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**2 Material accounting policies** (continued)

**2.5 Leases** (continued)

*(i) The Group as a lessee (continued)*

**Lease liabilities**

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

To determine the incremental borrowing rate, the Group:

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

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

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

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

The lease liability is presented as a separate line in the consolidated statement of financial position.

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

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

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

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**2 Material accounting policies** (continued)

**2.5 Leases** (continued)

*(i) The Group as a lessee (continued)*

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

The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement dates, plus any initial direct costs incurred and future restoration costs, if any. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any.

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

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

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

The Group applies IAS 36 "Impairment of Assets" to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss. Also see Note 2.20.

*(ii) The Group as a lessor*

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

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

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

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

**2.6 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets under development are stated at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Following initial recognition, intangible assets with finite useful lives are carried at cost less any accumulated amortization and any accumulated impairment losses, if any. Intangible assets with infinite useful lives are carried at cost less any accumulated impairment losses, if any. Subsequent expenditures are capitalised only if future economic benefits that are attributable to the asset are expected to flow to the entity and the costs can be measured reliably.

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**2 Material accounting policies (continued)**

**2.6 Intangible assets (continued)**

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

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

**2.8 Inventories**

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

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

**2.9 Trade and other payables**

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

**2.10 Cash and cash equivalents**

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

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

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**2 Material accounting policies (continued)**

**2.12 Employee benefit obligations**

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

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

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

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

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

**2.13 Short-term employee benefits**

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

**2.14 Revenue recognition**

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

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

*(i) In-store retail*

The Group operates a chain of retail outlets. Revenue from the sale of goods is recognized when the Group sells a product to the customer. Payment of the transaction price is due immediately when the customer purchases the product. The Group's return policy grants customers the right of return within 7-14 days depending on the type of product with certain requirements and certain exceptions.



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**2 Material accounting policies** (continued)

**2.14 Revenue recognition** (continued)

*(i) In-store retail (continued)*

Accumulated experience is used to estimate such returns at the time of sale using the expected value method. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. The Group's revenue from retail operations also includes revenue recognized from provision of certain services incidental to the sale of some of its products, including but not limited to, delivery and installation etc. Revenue from such services is recognized at a point in time since the associated performance obligation is satisfied either instantly or within a short span of time.

*(ii) Wholesale*

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

*(iii) E-commerce*

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

*(iv) Provision of extended warranty services*

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

*(v) Gift cards*

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

*(vi) Income from Islamic financing activities*

Income from Islamic financing contracts including installment sales, Murabaha, Tawarruq and credit card financing is recognized over the term of the contract using the effective yield method, by applying the Effective Profit Rate ("EPR"), on the outstanding balance over the term of the contract. The effective profit rate is the rate that exactly discounts estimated future cash receipts through the expected life of the investment in Islamic financing contracts to their gross carrying amounts. The calculation of effective yield includes transaction costs and origination fees income received.

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**2 Material accounting policies (continued)**

**2.15 Cost of revenues**

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

**2.16 Earnings per share**

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

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

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

**2.17 Borrowings**

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

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

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

**2.18 Zakat and taxes**

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

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

**2.19 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.

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**2 Material accounting policies (continued)**

**2.20 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.

**2.21 Treasury shares**

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

**2.22 Share-based payment - Employee option plan**

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

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

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**2 Material accounting policies (continued)**

**2.22 Share-based payment - Employee option plan (continued)**

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

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

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

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

**2.23 Current versus non-current classification**

The Group presents assets and liabilities in the consolidated statement of financial position based on current/ non-current classification. An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

All other liabilities are classified as non-current.

**2.24 Dividends**

Dividends are recorded in the consolidated financial statements in the period in which they are approved by shareholders of the Company. Interim dividends, if any, are recorded when approved by the Board of Directors.

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**2 Material accounting policies (continued)**

**2.25 Financial instruments**

**2.25.1 Financial assets**

*(a) Classification*

Classification and subsequent measurement of debt instruments depend on:

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

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

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

This classification is based on the business model of the Group for managing the financial assets, and contractual cash flow characteristics.

The Group's financial assets are classified and measured at amortised cost as such assets are held for collection of contractual cash flows where those cash flows represent SPPP.

*(b) Recognition and measurement*

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

Subsequent measurement of Group's financial assets are at amortised cost. Finance income from these financial assets is included in finance income using the effective profit rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Instances of modifications to the terms of the Company's financial assets are rare, considering that the acceptance of modification request from the customers is at the discretion of the Company except for cases as mandated by Saudi Central Bank ("SAMA") regulations. Modifications to the investment in Islamic financing contracts have an immaterial impact on the accompanying consolidated financial statements. Also see Note 30.

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**2 Material accounting policies** (continued)

**2.25 Financial instruments** (continued)

**2.25.1 Financial assets** (continued)

*(c) De-recognition of financial assets*

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

*(d) Impairment*

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

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

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

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

Stage 3 ("Non-performing") includes financial assets that have objective evidence of impairment at the reporting date. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due, which is fully aligned with the definition of credit-impaired under IFRS 9. For these assets, lifetime ECL are recognised and finance income is calculated on the net carrying amount (that is, net of credit allowance).

The Group, when determining whether the credit risk on a financial instrument has increased significantly, since the initial recognition of the financial asset, considers the 'days past due' analysis of each exposure and certain other qualitative factors such as monitoring the forward looking information about financial difficulties faced by private sector employers of the customers and nationalization targets for specific industry groups etc. Management considers such analysis to be an effective and efficient measure of monitoring significant increase in credit risk, without undue cost and effort, as it enters into Islamic Financing Contracts with individual customers only.

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**2 Material accounting policies** (continued)

**2.25 Financial instruments** (continued)

**2.25.1 Financial assets** (continued)

*(d) Impairment (continued)*

For trade and other receivables and net investment in finance lease, the Group applies the simplified approach which requires lifetime expected credit losses to be recognised from initial recognition of the receivables. Financial assets are written-off only when there is no reasonable expectation of recovery. Where financial assets are written-off, the Group continues to engage enforcement activities to attempt to recover the receivable due. Where recoveries are made, after write-off, are recognized in the profit or loss. Impairment losses on financial assets are presented separately on the consolidated statement of profit or loss and other comprehensive income. For details regarding credit risk management, refer Note 31.

Financial assets are written-off only when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include amongst others, customers' failure to make contractual payments for a period of greater than 365 days past default and or engage with the Group's collection team. Furthermore, all outstanding exposures from deceased customers are written off immediately.

Where financial assets are written-off, the Group continues to engage enforcement activities to attempt to recover the receivable due, except for balances written off for deceased customers, which are immaterial. Recoveries made, after write-off, are recognized in 'Net impairment losses on financial assets' in profit or loss.

Impairment losses on financial assets are presented separately on the consolidated statement of profit or loss and other comprehensive income. For details regarding credit risk management, refer Note 30.

**2.25.2 Financial liabilities**

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

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

**2.25.3 Offsetting financial assets and liabilities**

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



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**2 Material accounting policies (continued)**

**2.26 Investment in Islamic financing contracts**

**2.26.1 Tawarruq financing contracts**

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

**2.26.2 Murabaha financing contracts**

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

**2.26.3 Installment sales receivables**

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

**2.26.4 Islamic credit card receivables**

Islamic credit card receivables are initially measured at the fair value-which is the cash consideration to originate the receivable including transaction costs. Following initial recognition, the receivables are stated at amortized cost.

**3 Critical accounting estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRS, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by SOCPA, requires the use of certain critical estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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### **3 Critical accounting estimates and judgments (continued)**

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

#### **(a) Critical accounting estimates**

##### *(i) Measurement of ECL allowance on investment in Islamic financing contracts*

Measurement of ECL allowance on investment in Islamic financing contracts is an estimate that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year. During the year ended 31 December 2023, there were certain changes made to the underlying methodology and assumptions (choice of variable inputs and their interdependencies) in developing the model for computation of Expected Credit Loss (ECL) on investment in Islamic financing contracts. A detailed analysis of such change in estimate and the underlying judgements has been included in Note 31. Also see Note 15.

##### *(ii) Provision for slow moving inventories*

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

At year-end, if the inventories' markdown and provision increased or decreased by 10% with all other variables held constant, net profit for the year would have been higher or lower by Saudi Riyals 3.2 million (31 December 2022: Saudi Riyals 2.3 million).

#### **(b) Critical accounting judgements**

##### *(i) Lease term*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. Management has exercised judgement in determining that its lease agreements for office space and other kiosks etc. are short term in nature considering expected expansion of workforce, insignificant leasehold improvements, analysis of utility of the kiosks and expectation of no significant business disruption. Accordingly, all rental expenses for such short-term leases have been charged to statement of profit or loss and other comprehensive income.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

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**3 Critical accounting estimates and judgments (continued)**

(b) Critical accounting judgements (continued)

(ii) *SPPP Test*

Management has assessed the prepayment and early termination features of the Islamic financing contract which require the customers to pay certain compensation in addition to the outstanding principal and accrued profit. However, management believes that such additional amounts represent 'reasonable compensation' for the reinvestment costs.

Furthermore, the contractual provisions also stipulate that in the event of default of payment of two consecutive installments by the customer, the entire contract amount becomes payable upon demand by the Group at its discretion. However, the Group pursues legal action to recover its outstanding dues only upon meeting certain additional requirements as set out in the applicable SAMA regulations and the amounts to be recovered from the customer, representing the outstanding principal and profit is determined by the outcome of the legal action. Accordingly, management believes that the contractual cashflows of investment in Islamic financing contracts meet the SPPP test.

**4 Revenue**

	<b>2023</b>	<b>2022</b>
<b>Recognized at a point in time</b>		
Retail	<b>4,371,865</b>	4,407,501
Wholesale	<b>56,996</b>	38,985
E-commerce	<b>1,094,766</b>	1,039,095
	<b>5,523,627</b>	5,485,581
<b>Recognized over time</b>		
Extended warranty program	<b>149,454</b>	121,233
Others	<b>2,271</b>	2,256
	<b>151,725</b>	123,489
Total sales and services	<b>5,675,352</b>	5,609,070
Income from Islamic financing contracts	<b>525,336</b>	421,996
	<b>6,200,688</b>	6,031,066

**5 Selling and distribution expenses**

	<b>Note</b>	<b>2023</b>	<b>2022</b>
Salaries and benefits		<b>257,917</b>	267,738
Depreciation	9,10	<b>90,702</b>	87,864
Advertising		<b>52,274</b>	46,822
Bank charges on electronic receipts		<b>38,849</b>	29,348
Utilities, printing and stationery		<b>25,414</b>	27,063
Delivery charges		<b>24,913</b>	21,436
Repairs and maintenance		<b>12,809</b>	17,049
Security services		<b>9,584</b>	9,380
Amortisation	12	<b>5,149</b>	4,779
Others		<b>39,537</b>	44,859
		<b>557,148</b>	556,338

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**6 General and administrative expenses**

	<b>Note</b>	<b>2023</b>	<b>2022</b>
Salaries and benefits		<b>175,732</b>	133,423
Amortisation	12	<b>9,645</b>	8,369
Depreciation	9,10	<b>9,074</b>	7,994
Rent		<b>7,895</b>	-
Professional fees		<b>7,170</b>	6,401
Repairs and maintenance		<b>6,930</b>	7,868
Information technology support		<b>6,747</b>	7,785
Utilities		<b>6,557</b>	2,236
Travel and accommodation		<b>2,498</b>	1,846
Others		<b>21,617</b>	7,902
		<b>253,865</b>	183,824

**7 Other income**

	<b>Note</b>	<b>2023</b>	<b>2022</b>
Gain on recognition of net investment in finance lease	7.1	-	13,635
Value-added-tax ("VAT") claim	7.2	-	10,590
Gain on termination and remeasurement of leases		-	6,502
Product launch incentive		-	3,750
Others	7.3	<b>6,231</b>	8,001
		<b>6,231</b>	42,478

7.1 During the year ended 31 December 2022, the Company entered into a sub-lease agreement for a leased land parcel and accordingly, the Company has derecognized a portion of the right-of-use assets for the head lease and recognized a net investment in a finance lease and other income of Saudi Riyals 13.6 million.

7.2 Prior to the year ended 31 December 2022, the Company had received additional assessments for VAT for the years 2018 and 2019 amounting to Saudi Riyals 10.6 million which were recognized as an expense and settled by the Company. However, the Company had filed an appeal against such additional assessments and during the year ended 31 December 2023, the appeal was concluded and the Company's contentions were accepted by the ZATCA, resulting in recognition of other income against such amount refunded to the Company.

7.3 Others include income from net investment in finance leases amounting to Saudi Riyals 2.9 million (2022: Saudi Riyals 2.5 million) and breakage income amounting to Saudi Riyals 1.6 million (2022: Saudi Riyals 1.8 million).

**8 Finance charges**

	<b>Note</b>	<b>2023</b>	<b>2022</b>
Finance cost on lease liabilities	23	<b>41,983</b>	38,733
Finance cost on borrowings		<b>20,120</b>	11,374
		<b>62,103</b>	50,107

Finance charges amounting to Saudi Riyals 63.2 million (31 December 2022: Saudi Riyals 27.8 million) related to the consumer financing activities have been presented under 'Cost of revenue'.

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**9 Property and equipment**

	Land	Buildings and leasehold improvements	Furniture, fixtures and office equipment	Vehicles	Capital work-in- progress	Total
<b>2023</b>						
<b>Cost</b>						
1 January	110,889	457,624	357,449	18,069	29,313	<b>973,344</b>
Additions	-	1,952	19,053	97	23,222	<b>44,324</b>
Transfers	-	11,315	2,793	-	(14,108)	-
Assets classified as held for sale and other disposals	-	(41)	(1,271)	(988)	(3,261)	<b>(5,561)</b>
Written-off	-	-	(727)	-	-	<b>(727)</b>
31 December	110,889	470,850	377,297	17,178	35,166	<b>1,011,380</b>
<b>Accumulated depreciation</b>						
1 January	-	(185,044)	(277,854)	(15,312)	-	<b>(478,210)</b>
Additions	-	(21,383)	(27,921)	(329)	-	<b>(49,633)</b>
Assets classified as held for sale and other disposals	-	20	865	830	-	<b>1,715</b>
Written-off	-	-	679	-	-	<b>679</b>
31 December	-	(206,407)	(304,231)	(14,811)	-	<b>(525,449)</b>
<b>Net book value</b>	<b>110,889</b>	<b>264,443</b>	<b>73,066</b>	<b>2,367</b>	<b>35,166</b>	<b>485,931</b>
	Land	Buildings and leasehold improvements	Furniture, fixtures and office equipment	Vehicles	Capital work-in- progress	Total
<b>2022</b>						
<b>Cost</b>						
1 January	110,889	415,415	311,997	19,382	26,107	883,790
Additions	-	8,088	48,773	108	39,109	96,078
Disposals	-	(650)	(466)	(1,421)	(91)	(2,628)
Transfers	-	35,739	73	-	(35,812)	-
Written-off	-	(968)	(2,928)	-	-	(3,896)
31 December	110,889	457,624	357,449	18,069	29,313	973,344
<b>Accumulated depreciation</b>						
1 January	-	(165,065)	(256,159)	(15,464)	-	(436,688)
Additions	-	(21,028)	(25,379)	(480)	-	(46,887)
Disposals	-	650	930	632	-	2,212
Written-off	-	399	2,754	-	-	3,153
31 December	-	(185,044)	(277,854)	(15,312)	-	(478,210)
<b>Net book value</b>	<b>110,889</b>	<b>272,580</b>	<b>79,595</b>	<b>2,757</b>	<b>29,313</b>	<b>495,134</b>

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**9 Property and equipment (continued)**

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

The Group's capital-work-in-progress as at 31 December 2023 principally comprises, among other items, the costs incurred related to leasehold improvements and construction of a new stores which is expected to be completed by June 2024 with a total estimated costs of Saudi Riyals 14.0 million.

The estimated useful lives of assets are as follows:

	<b>Number of years</b>
• Building and leasehold improvements	10 - 33
• Furniture, fixtures and office equipment	4 - 10
• Vehicles	5

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

	<b>Note</b>	<b>2023</b>	<b>2022</b>
Selling and distribution expenses	5	<b>41,504</b>	40,092
General and administrative expenses	6	<b>8,129</b>	6,795
		<b>49,633</b>	46,887

**10 Right-of-use assets**

	<b>Land</b>	<b>Stores</b>	<b>Warehouses</b>	<b>Office building</b>	<b>Total</b>
<b><u>2023</u></b>					
<b>Cost</b>					
1 January	393,757	186,115	36,442	14,622	<b>630,936</b>
Additions	-	55,521	5,642	-	<b>61,163</b>
Termination	-	(1,191)	-	(11,518)	<b>(12,709)</b>
31 December	<u>393,757</u>	<u>240,445</u>	<u>42,084</u>	<u>3,104</u>	<b><u>679,390</u></b>
<b>Accumulated depreciation</b>					
1 January	(83,430)	(88,145)	(4,570)	(3,606)	<b>(179,751)</b>
Additions	(20,602)	(20,818)	(7,803)	(920)	<b>(50,143)</b>
Termination	-	923	-	1,436	<b>2,359</b>
Right-of-use assets capitalised	-	(549)	-	-	<b>(549)</b>
31 December	<u>(104,032)</u>	<u>(108,589)</u>	<u>(12,373)</u>	<u>(3,090)</u>	<b><u>(228,084)</u></b>
<b>Net book value</b>	<b><u>289,725</u></b>	<b><u>131,856</u></b>	<b><u>29,711</u></b>	<b><u>14</u></b>	<b><u>451,306</u></b>

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**10 Right-of-use assets (continued)**

	<b>Land</b>	<b>Stores</b>	<b>Warehouses</b>	<b>Office buildings</b>	<b>Total</b>
<b>2022</b>					
<b>Cost</b>					
1 January	393,757	152,169	13,285	3,104	562,315
Additions	-	56,446	32,636	11,518	100,600
Recognition of net investment in finance leases	-	(24,267)	-	-	(24,267)
Termination	-	(20,762)	(9,479)	-	(30,241)
Remeasurement	-	22,529	-	-	22,529
31 December	<u>393,757</u>	<u>186,115</u>	<u>36,442</u>	<u>14,622</u>	<u>630,936</u>
<b>Accumulated depreciation</b>					
1 January	(63,004)	(66,661)	(6,927)	(1,954)	(138,546)
Additions	(20,426)	(23,961)	(2,932)	(1,652)	(48,971)
Recognition of net investment in finance leases	-	1,327	-	-	1,327
Termination	-	5,457	5,289	-	10,746
Right-of-use assets capitalised	-	(4,307)	-	-	(4,307)
31 December	<u>(83,430)</u>	<u>(88,145)</u>	<u>(4,570)</u>	<u>(3,606)</u>	<u>(179,751)</u>
<b>Net book value</b>	<u>310,327</u>	<u>97,970</u>	<u>31,872</u>	<u>11,016</u>	<u>451,185</u>

Adjustments during the year ended 31 December 2023 pertains to remeasurement of a lease amounting to Saudi Riyals nil (2022: Saudi Riyals 22.5 million), derecognition on account of sub-lease amounting to Saudi Riyals nil (2022: Saudi Riyals 22.9 million) and termination of a lease amounting to Saudi Riyals 10.5 million (2022: Saudi Riyals 26.0 million). Also see Note 23.

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

	<b>Note</b>	<b>2023</b>	<b>2022</b>
Selling and distribution expenses	5	<b>49,198</b>	47,772
General and administrative expenses	6	<b>945</b>	1,199
		<u><b>59,143</b></u>	<u>48,971</u>

**11 Net investment in finance lease**

**11.1 Reconciliation between gross and net investment in finance leases is as follows:**

	<b>2023</b>	<b>2022</b>
Gross investment in finance leases	<b>75,897</b>	81,848
Unearned finance income	<u><b>(28,439)</b></u>	<u>(32,845)</u>
Net investment in finance leases	<b>47,458</b>	49,003
Non-current portion	<u><b>(44,147)</b></u>	<u>(46,908)</u>
Current portion	<u><b>3,311</b></u>	<u>2,095</u>



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**11 Net investment in finance lease (continued)**

**11.2 Maturity profile of gross investment in finance leases and present value of minimum lease payments receivables is as follows:**

	<b>2023</b>	<b>2022</b>
<b>Gross investment in finance leases</b>		
Within one year	<b>4,076</b>	5,309
From one to two years	<b>4,076</b>	4,076
From two to three years	<b>4,326</b>	4,076
From three to four years	<b>4,326</b>	4,326
Four years and above	<b>59,093</b>	64,061
	<b>75,897</b>	81,848
	<b>2023</b>	<b>2022</b>
<b>Present value of minimum lease payments receivable</b>		
Within one year	<b>3,861</b>	2,095
From one to two years	<b>3,115</b>	1,262
From two to three years	<b>3,061</b>	1,345
From three to four years	<b>2,879</b>	1,683
Four year and above	<b>34,542</b>	42,618
	<b>47,458</b>	49,003

Also see Note 31.

**12 Intangible assets**

	<b>Computer software</b>	<b>Capital work-in-progress</b>	<b>Total</b>
<b>2023</b>			
<b>Cost</b>			
1 January	139,249	5,526	<b>144,775</b>
Additions	8,929	12,049	<b>20,978</b>
Transfers	14,462	(14,462)	-
31 December	<b>162,640</b>	<b>3,113</b>	<b>165,753</b>
<b>Accumulated amortization</b>			
1 January	(90,210)	-	<b>(90,210)</b>
Additions	(14,794)	-	<b>(14,794)</b>
31 December	<b>(105,004)</b>	-	<b>(105,004)</b>
<b>Net book value</b>	<b>57,636</b>	<b>3,113</b>	<b>60,749</b>

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**12 Intangible assets (continued)**

	<b>Computer software</b>	<b>Capital work-in- progress</b>	<b>Total</b>
<b>2022</b>			
<b>Cost</b>			
1 January	125,075	6,927	132,002
Additions	6,382	6,481	12,863
Write-off / transfers	7,792	(7,882)	(90)
31 December	139,249	5,526	144,775
<b>Accumulated amortization</b>			
1 January	(77,152)	-	(77,152)
Additions	(13,148)	-	(13,148)
Write-off / transfers	90	-	90
31 December	(90,210)	-	(90,210)
<b>Net book value</b>	49,039	5,526	54,565

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

The Group's assets under development as at 31 December 2023 principally comprises the costs incurred related to computer software which is expected to be completed by March 2024 with a total additional estimated cost of Saudi Riyals 1.4 million.

**13 Goodwill**

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

**14 Trade and other receivables**

	<b>Note</b>	<b>2023</b>	<b>2022</b>
Trade receivables		103,491	60,387
Less: allowance for expected credit losses (ECL)	31	(12,507)	(2,507)
Net trade receivables		90,984	57,880
Prepaid expenses		39,330	42,014
Advances to employees		13,192	11,302
Claim receivable and refundable deposits		12,391	10,918
Advances to suppliers		10,404	5,165
Due from related parties	28	1,783	1,214
Other assets		14,301	7,755
		182,385	136,189
<b>Non-current portion</b>			
Prepaid expenses and advances to employees		(8,698)	(6,395)
<b>Current portion</b>		173,687	129,794

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**14 Trade and other receivables (continued)**

Movement in allowance for ECL is as follows:

	<b>2023</b>	<b>2022</b>
Opening balance	<b>2,507</b>	2,507
Provision for the year	<b>10,000</b>	-
Closing balance	<b>12,507</b>	2,507

Also see Note 30.

**15 Investment in Islamic financing contracts**

	<b>2023</b>	<b>2022</b>
Installment sales receivables, net	-	2,564
Investment in Tawarruq financing contracts, net	<b>1,531,316</b>	1,149,838
Investment in Murabaha financing contracts, net	<b>272,873</b>	398,324
Investment in Islamic credit cards, net	<b>63,196</b>	6,468
	<b>1,867,385</b>	1,557,194
Non-current portion	<b>(1,028,152)</b>	(894,032)
Current portion	<b>839,233</b>	663,162

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**15 Investment in Islamic financing contracts (continued)**
**15.1 Reconciliation between gross and net investment in Islamic financing contracts is as follows:**

	Installment sales		Tawarruq finance		Murabaha finance		Islamic credit card		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Gross investment in Islamic financing contracts	<b>32,473</b>	36,888	<b>2,317,298</b>	1,756,430	<b>362,169</b>	531,820	<b>65,726</b>	6,833	<b>2,777,666</b>	2,331,971
Unearned finance and processing fee income	<b>(7,048)</b>	(8,534)	<b>(736,619)</b>	(566,528)	<b>(77,646)</b>	(127,170)	-	-	<b>(821,313)</b>	(702,232)
Present value of investment in Islamic financing contracts ("P.V of I.F.C.")	<b>25,425</b>	28,354	<b>1,580,679</b>	1,189,902	<b>284,523</b>	404,650	<b>65,726</b>	6,833	<b>1,956,353</b>	1,629,739
Allowance for ECL	<b>(25,425)</b>	(25,790)	<b>(49,363)</b>	(40,064)	<b>(11,650)</b>	(6,326)	<b>(2,530)</b>	(365)	<b>(88,968)</b>	(72,545)
Net investment in Islamic financing contracts ("Net investment in I.F.C.")	-	2,564	<b>1,531,316</b>	1,149,838	<b>272,873</b>	398,324	<b>63,196</b>	6,468	<b>1,867,385</b>	1,557,194
Net investment in I.F.C. - Non-current portion	-	-	<b>(957,963)</b>	(773,390)	<b>(70,189)</b>	(120,642)	-	-	<b>(1,028,152)</b>	(894,032)
Net investment in I.F.C. - Current portion	-	2,564	<b>573,353</b>	376,448	<b>202,684</b>	277,682	<b>63,196</b>	6,468	<b>839,233</b>	663,162

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**15 Investment in Islamic financing contracts (continued)**

**15.2 The movement in allowance for ECL/impairment on Islamic financing contracts is as follows:**

	Installment sales		Tawarruq finance		Murabaha finance		Islamic credit card		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Opening balance	25,790	25,790	40,064	23,933	6,326	9,431	365	-	72,545	59,154
Charge for the year	(365)	-	52,655	42,044	16,584	5,449	2,720	365	71,594	47,858
Amounts written-off	-	-	(43,356)	(25,913)	(11,260)	(8,554)	(555)	-	(55,171)	(34,467)
Closing balance	25,425	25,790	49,363	40,064	11,650	6,326	2,530	365	88,968	72,545

Certain amounts in the comparative column of the above disclosure have been adjusted to conform to 2023 presentation.

**15.2.1 Net impairment losses on financial assets:**

	Installment sales		Tawarruq finance		Murabaha finance		Islamic credit card		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Charge for the year	(365)	-	52,655	42,044	16,584	5,449	2,720	365	71,594	47,858
Recoveries of amounts previously written off	-	-	(7,742)	(4,692)	(3,624)	(2,413)	-	-	(11,366)	(7,105)
Net impairment losses on financial assets	(365)	-	44,913	37,352	12,960	3,036	2,720	365	60,228	40,753

**15.3 Stage-wise analysis of Islamic financing contracts and the respective allowance for ECL/impairment are as follows:**

	Instalment sales			Tawarruq finance			Murabaha finance			Islamic credit card			Total		
31 December 2023	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.
Performing (Stage 1)	-	-	-	1,363,519	(12,796)	1,350,723	231,559	(1,146)	230,413	56,654	(735)	55,919	1,651,732	(14,677)	1,637,055
Under-performing (Stage 2)	-	-	-	94,489	(7,282)	87,207	13,124	(813)	12,311	3,111	(300)	2,811	110,724	(8,395)	102,329
Non-performing (Stage 3)	25,425	(25,425)	-	122,671	(29,285)	93,386	39,840	(9,691)	30,149	5,961	(1,495)	4,466	193,897	(65,896)	128,001
	25,425	(25,425)	-	1,580,679	(49,363)	1,531,316	284,523	(11,650)	272,873	65,726	(2,530)	63,196	1,956,353	(88,968)	1,867,385

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**15 Investment in Islamic financing contracts (continued)**

**15.3 Stage-wise analysis of Islamic financing contracts and the respective allowance for ECL/impairment are as follows: (continued)**

31 December 2022	Instalment sales			Tawarruq finance			Murabaha finance			Islamic credit card			Total		
	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.
Performing (Stage 1)	41	(37)	4	1,102,246	(10,500)	1,091,746	378,868	(1,408)	377,460	5,841	(47)	5,794	1,486,996	(11,992)	1,475,004
Under-performing (Stage 2)	90	(82)	8	18,730	(2,890)	15,840	4,759	(196)	4,563	496	(96)	400	24,075	(3,264)	20,811
Non-performing (Stage 3)	28,223	(25,671)	2,552	68,926	(26,674)	42,252	21,023	(4,722)	16,301	496	(222)	274	118,668	(57,289)	61,379
	28,354	(25,790)	2,564	1,189,902	(40,064)	1,149,838	404,650	(6,326)	398,324	6,833	(365)	6,468	1,629,739	(72,545)	1,557,194

**15.4 Stage-wise movement in ECL allowance/impairment on investment in Islamic financing contracts is as follows:**

	Performing (Stage 1)	Under-performing (Stage 2)	Non-performing (Stage 3)	Total
<b>2023</b>				
1 January 2023	11,992	3,264	57,289	72,545
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(5,270)	8,236	(633)	2,333
Individual financial assets transferred to non -performing (credit-impaired financial assets)	(16,974)	(1,928)	38,213	19,311
Individual financial assets transferred to performing (12-month expected credit losses)	42	(475)	(2,299)	(2,732)
New financial assets originated	28,620	-	-	28,620
Amounts written-off	(1,500)	(267)	(53,405)	(55,172)
Other changes	(2,233)	(435)	26,731	24,063
31 December 2023	14,677	8,395	65,896	88,968

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**15 Investment in Islamic financing contracts** (continued)**15.4 Stage-wise movement in ECL allowance/impairment on investment in Islamic financing contracts is as follows:** (continued)

	<b>Performing (Stage 1)</b>	<b>Under- performing (Stage 2)</b>	<b>Non- performing (Stage 3)</b>	<b>Total</b>
<b><u>2022</u></b>				
1 January 2022	8,442	3,409	47,303	59,154
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(1,865)	3,135	(146)	1,124
Individual financial assets transferred to non -performing (credit-impaired financial assets)	(10,966)	(1,600)	30,267	17,701
Individual financial assets transferred to performing (12-month expected credit losses)	40	(361)	(329)	(650)
New financial assets originated	19,074	-	-	19,074
Amounts written-off	(65)	(128)	(27,171)	(27,364)
Other changes	(2,668)	(1,191)	7,365	3,506
31 December 2022	11,992	3,264	57,289	72,545

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**15 Investment in Islamic financing contracts (continued)**
**15.5 Category-wise movement in stage-wise ECL allowance/impairment is as follows:**

	Instalment sales			Tawarruq finance			Murabaha finance			Islamic credit card			Total	
	Performing	Under-	Non-	Performing	Under-	Non-	Performing	Under-	Non-	Performing	Under-	Non-	Performing	Under-
2023	(Stage 1)	(Stage 2)	(Stage 3)	(Stage 1)	(Stage 2)	(Stage 3)	(Stage 1)	(Stage 2)	(Stage 3)	(Stage 1)	(Stage 2)	(Stage 3)	(Stage 1)	(Stage 2)
At 1 January	37	82	25,671	10,500	2,890	26,674	1,408	196	4,722	47	96	222	11,992	3,264
Individual financial assets transferred to														
- Stage 1	-	-	-	39	(446)	(2,186)	2	(25)	(87)	1	(4)	(26)	42	(475)
- Stage 2	-	-	-	(4,473)	7,133	(583)	(508)	802	(50)	(289)	298	-	(5,270)	8,233
- Stage 3	-	-	-	(11,370)	(1,742)	27,349	(4,476)	(109)	9,369	(1,128)	(77)	1,496	(16,974)	(1,928)
New financial assets originated	-	-	-	21,149	-	-	5,383	-	-	2,088	-	-	28,620	-
Amounts written-off	-	-	-	(1,372)	(250)	(41,733)	(127)	(16)	(11,117)	-	-	(555)	(1,499)	(266)
Other changes	(37)	(82)	(246)	(1,677)	(303)	19,764	(536)	(35)	6,854	16	(13)	358	(2,234)	(433)
At 31 December	-	-	25,425	12,796	7,282	29,285	1,146	813	9,691	735	300	1,495	14,677	8,395



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**15 Investment in Islamic financing contracts (continued)**
**15.5 Category-wise movement in stage-wise ECL allowance/impairment is as follows: (continued)**

	Instalment sales			Tawarruq finance			Murabaha finance			Islamic credit card				Total	
	Performing	Under-	Non-	Performing	Under-	Non-	Performing	Under-	Non-	Performing	Under-	Non-	Performing	Under-	Non-
2022	(Stage 1)	performing	performing	(Stage 1)	performing	performing	(Stage 1)	performing	performing	(Stage 1)	performing	performing	(Stage 1)	(Stage 2)	(Stage 3)
At 1 January	703	768	24,319	6,019	2,067	15,847	1,720	574	7,137	-	-	-	8,442	3,409	47,303
Individual financial assets transferred to															
- Stage 1	-	-	-	(1,597)	2,837	(136)	(172)	201	(9)	(96)	96	-	(1,865)	3,134	(145)
- Stage 2	-	-	-	(8,827)	(1,312)	26,780	(1,917)	(287)	3,264	(222)	-	222	(10,966)	(1,599)	30,266
- Stage 2	-	-	-	37	(274)	(222)	3	(87)	(107)	-	-	-	40	(361)	(329)
New financial assets originated	-	-	-	15,753	-	-	2,979	-	-	342	-	-	19,074	-	-
Amounts written-off	-	-	-	(55)	(81)	(21,087)	(10)	(47)	(6,084)	-	-	-	(65)	(128)	(27,171)
Other changes	(666)	(686)	1,352	(830)	(347)	5,492	(1,195)	(158)	521	23	-	-	(2,668)	(1,191)	7,365
At 31 December	37	82	25,671	10,500	2,890	26,674	1,408	196	4,722	47	96	222	11,992	3,264	57,289

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**15 Investment in Islamic financing contracts** (continued)

**15.5 Category-wise movement in stage-wise ECL allowance/impairment is as follows:** (continued)

Following factors contributed to the change in the ECL allowance during the year ended 31 December 2023:

- Transfers between Stage 1, 2 and 3, due to balances experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- During the year ended 31 December 2023, management has noted an overtime increase in Stage 2 and Stage 3 exposures of the Investment in Islamic financing contracts which is consistent with the overall maturity of the portfolio of the Islamic financing contracts since the early years of incorporation of UCFS.
- During the year ended 31 December 2023, there were certain changes made to the underlying methodology and assumptions (choice of variable inputs and their interdependencies) used by management in developing the model for computation of ECL on investment in Islamic financing contracts. A detailed analysis of such change in estimate and the underlying judgements has been explained in Note 31;
- Additional allowances for new financial assets recognised during the year;
- Financial assets written off; and
- 'Other changes' in Stage 3 principally represent net impact of additional allowance for ECL recognized upon write-offs.

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**15 Investment in Islamic financing contracts (continued)**
**15.6 Category-wise movement in stage-wise gross investment in Islamic financing contracts is as follows:**

	Instalment sales			Tawarruq finance			Murabaha finance			Islamic credit card			Total		
	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)
<b>2023</b>															
At 1 January	53	118	36,717	1,102,246	18,730	68,926	378,862	4,759	21,023	5,840	496	496	1,487,001	24,103	127,162
Individual financial assets transferred to															
- Stage 1	-	-	-	8,259	(2,977)	(5,281)	6,484	(517)	(5,967)	560	(82)	(478)	15,303	(3,576)	(11,726)
- Stage 2	-	-	-	(105,940)	107,378	(1,438)	(19,287)	19,498	(211)	(3,277)	3,277	-	(128,504)	130,153	(1,649)
- Stage 3	-	-	-	(104,820)	(10,515)	115,335	(37,908)	(2,177)	40,086	(4,664)	(372)	5,036	(147,392)	(13,064)	160,457
New financial assets originated	-	-	-	887,521	-	-	164,444	-	-	64,414	-	-	1,116,379	-	-
Amounts written-off	-	-	-	(1,373)	(251)	(41,733)	(127)	(17)	(11,117)	-	-	(555)	(1,500)	(268)	(53,405)
Collections and other changes	(53)	(118)	(11,292)	(422,374)	(17,876)	(13,138)	(260,909)	(8,422)	(3,974)	(6,219)	(208)	1,462	(689,555)	(26,624)	(26,942)
<b>At 31 December</b>	<b>-</b>	<b>-</b>	<b>25,425</b>	<b>1,363,519</b>	<b>94,489</b>	<b>122,671</b>	<b>231,559</b>	<b>13,124</b>	<b>39,840</b>	<b>56,654</b>	<b>3,111</b>	<b>5,961</b>	<b>1,651,732</b>	<b>110,724</b>	<b>193,897</b>

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**15 Investment in Islamic financing contracts (continued)**
**15.6 Category-wise movement in stage-wise gross investment in Islamic financing contracts is as follows: (continued)**

	Instalment sales			Tawarruq finance			Murabaha finance			Islamic credit card			Total		
	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)
<b>2022</b>															
At 1 January	13,783	4,865	47,764	1,246,334	14,700	53,127	461,596	6,694	21,727	-	-	-	1,721,713	26,259	122,618
Individual financial assets transferred to															
- Stage 1	-	-	-	(31,096)	31,538	(441)	(7,477)	7,515	(29)	(495)	496	-	(39,068)	39,549	(470)
- Stage 2	-	-	-	(97,467)	(9,133)	106,600	(26,152)	(3,146)	29,298	(496)	-	496	(124,115)	(12,279)	136,394
- Stage 3	-	-	-	2,652	(1,927)	(725)	1,250	(930)	(320)	-	-	-	3,902	(2,857)	(1,045)
New financial assets originated	-	-	-	1,020,987	-	-	387,672	-	-	6,832	-	-	1,415,491	-	-
Amounts written-off	-	-	-	(53)	(81)	(21,087)	(12)	(47)	(6,084)	-	-	-	(65)	(128)	(27,171)
Collections and other changes	(13,730)	(4,747)	(11,047)	(513,105)	(7,642)	(36,751)	(316,912)	(4,344)	(18,479)	-	-	-	(843,747)	(16,733)	(66,277)
<b>At 31 December</b>	<b>53</b>	<b>118</b>	<b>36,717</b>	<b>1,628,252</b>	<b>27,455</b>	<b>100,723</b>	<b>499,965</b>	<b>5,742</b>	<b>26,113</b>	<b>5,841</b>	<b>496</b>	<b>496</b>	<b>2,134,111</b>	<b>33,811</b>	<b>164,049</b>

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**15 Investment in Islamic financing contracts (continued)**

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

	<b>2023</b>	<b>2022</b>
<b>Gross investment in Islamic financing contracts</b>		
Within one year	<b>1,066,838</b>	1,060,276
From one to two years	<b>808,228</b>	648,086
From two to three years	<b>479,715</b>	369,007
From three to four years	<b>295,256</b>	186,002
Four to five years	<b>127,629</b>	68,600
	<b>2,777,666</b>	2,331,971
<b>Present value of investment in Islamic financing contracts</b>		
Within one year	<b>895,792</b>	789,601
From one to two years	<b>550,793</b>	445,960
From two to three years	<b>301,094</b>	239,064
From three to four years	<b>150,008</b>	114,980
Four to five years	<b>58,666</b>	40,134
	<b>1,956,353</b>	1,629,739

**16 Inventories**

	<b>2023</b>	<b>2022</b>
Inventories	<b>1,161,214</b>	1,070,117
Goods-in-transit	<b>27,922</b>	15,171
	<b>1,189,136</b>	1,085,288
Provision for slow moving inventories	<b>(1,709)</b>	(5,656)
	<b>1,187,427</b>	1,079,632

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

	<b>2023</b>	<b>2022</b>
At 1 January	<b>5,656</b>	3,296
Additions	<b>10,167</b>	11,051
Write-offs	<b>(14,114)</b>	(8,691)
At 31 December	<b>1,709</b>	5,656

At 31 December 2023, inventories amounting to Saudi Riyals 104.5 million (31 December 2022: Saudi Riyals 132.4 million) were carried at their net realizable value. The cost of inventories recognised as expense amounted to Saudi Riyals 4,775.6 million (31 December 2022: Saudi Riyals 4,738.0 million) including inventory markdowns amounting to Saudi Riyals 12.9 million (31 December 2022: Saudi Riyals 11.5 million). During the year ended 31 December 2023, transportation costs required to bring inventories to their present location and condition amounting to Saudi Riyals 21.8 million (31 December 2022: Saudi Riyals 22.5 million) have been charged to cost of revenue.

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**17 Cash and cash equivalents**

	<b>2023</b>	<b>2022</b>
Cash at bank	<b>141,675</b>	132,207
Cash in hand	<b>9,597</b>	14,462
	<b>151,272</b>	<b>146,669</b>

For the purpose of the consolidated statement of cash flows, cash and cash equivalent comprise the following:

	<b>Note</b>	<b>2023</b>	<b>2022</b>
Cash at bank		<b>141,675</b>	132,207
Cash in hand		<b>9,597</b>	14,462
Cash and cash equivalents attributable to discontinued operations	18	<b>1,332</b>	-
		<b>152,604</b>	<b>146,669</b>

**18 Assets and liabilities held for sale**

On 30 April 2023, the Board of Directors of the Group resolved to discontinue the Group's plans to expand in Egypt. The following assets and liabilities were reclassified as held for sale in relation to the Egypt operation as at 31 December 2023:

**Assets classified as held for sale**

Property and equipment	<b>3,616</b>
Trade and other receivables	<b>2,121</b>
Cash and cash equivalent	<b>1,332</b>
	<b>7,069</b>

**Liabilities directly associated with assets classified as held for sale**

Trade and other payables	<b>5,029</b>
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As of the date of authorization of issue of these consolidated financial statements, the Group is in the process of disposal of the underlying assets and settlement of associated liabilities.

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**18 Assets and liabilities held for sale (continued)**

The impact on the consolidated profit or loss associated with the decision of discontinuation of Group's expansion plan in Egypt is summarized below:

	<b>For the year ended 31 December 2023</b>
Impairment on property and equipment	<b>4,231</b>
Loss on termination of leases	<b>8,104</b>
Salaries and related benefits	<b>16,121</b>
	<b>28,456</b>

**19 Share capital**

The share capital of the Company as of 31 December 2023 consisted of 80 million shares (2022: 80.0 million shares) stated at Saudi Riyals 10 per share.

*Reconciliation of number of shares outstanding as at 31 December:*

	<b>2023</b>	<b>2022</b>
At 1 January	<b>75,184,219</b>	57,518,216
Issuance of bonus shares	-	20,000,000
Net movement in treasury shares	<b>1,021,666</b>	(2,333,997)
At 31 December	<b>76,205,885</b>	75,184,219

Also see Note 29 and 30.

**20 Statutory reserve**

In accordance with the Company's By-laws and the Regulations for Companies in the Kingdom of Saudi Arabia, applicable until January 2023, the Company was required to transfer 10% of the net profit for the year to a statutory reserve until such reserve equals 30% of share capital. However, with the introduction of new Regulations for Companies in the Kingdom of Saudi Arabia, the requirement to maintain statutory reserve is no longer applicable.

The shareholders of the Company, in their extraordinary general meeting held on 3 December 2023, resolved to transfer the balance of statutory reserve amounting to Saudi Riyals 64.1 million to the retained earnings and to amend the By-laws of the Company in accordance with the new Regulations for Companies. The legal formalities for amendments to the By-laws have been completed subsequent to the year ended 31 December 2023.

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**21 Borrowings**

	<b>2023</b>	<b>2022</b>
<b>Long-term borrowings</b>		
Murabaha facilities	<b>939,537</b>	581,934
<b>Short-term borrowings</b>		
Murabaha facilities	<b>406,788</b>	590,165
	<b>1,346,325</b>	1,172,099
Accrued finance cost	<b>7,034</b>	6,952
	<b>1,353,359</b>	1,179,051
Classification of borrowings is presented below:		
Current portion (including short-term borrowings)	<b>688,620</b>	777,384
Non-current portion	<b>664,739</b>	401,667
	<b>1,353,359</b>	1,179,051

**21.1** The movement in the Company's borrowings is as follows:

	<b>2023</b>	<b>2022</b>
As at 1 January	<b>1,179,051</b>	685,798
Proceeds from long-term borrowings	<b>774,500</b>	396,000
Proceeds from short-term borrowings	<b>1,893,922</b>	1,818,166
Repayment of long-term borrowings	<b>(416,897)</b>	(239,046)
Repayment of short-term borrowings	<b>(2,077,165)</b>	(1,488,000)
Finance cost accrued	<b>125,346</b>	77,885
Finance cost paid	<b>(125,398)</b>	(71,752)
As at 31 December	<b>1,353,359</b>	1,179,051

**21.2** The maturities of the Company's borrowings are as follows:

	<b>2023</b>	<b>2022</b>
Less than 6 months	<b>546,712</b>	692,799
Between 6 to 12 months	<b>134,875</b>	77,633
Between 1 and 2 years	<b>269,750</b>	155,267
Between 2 and 5 years	<b>394,988</b>	246,400
	<b>1,346,325</b>	1,172,099

Maturity profile of borrowings, including finance cost component, is disclosed in Note 30.

**21.3** The Company has obtained borrowings under Islamic financing arrangements with commercial banks in the Kingdom of Saudi Arabia. All loan facilities above are denominated in Saudi Riyals and bear financial charges based on Saudi Arabian Interbank Offered Rate ("SAIBOR") ranging between SAIBOR plus 0.85% to 1.25% (31 December 2022: SAIBOR plus 1.1% to 1.4%). The Company's borrowings are carried at amortised cost and are periodically contractually repriced after every three months, in line with the terms of the borrowing arrangements.



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**21 Borrowings (continued)**

The facility-wise breakdown of the outstanding loan balance is as follows:

	<b>Note</b>	<b>2023</b>	<b>2022</b>
<b>Long-term borrowings</b>			
Murabaha I	21.3.1	-	206,934
Murabaha III	21.3.2	-	25,000
Murabaha IV	21.3.3	<b>249,999</b>	350,000
Murabaha VI	21.3.4	<b>356,350</b>	-
Murabaha VII	21.3.5	<b>333,188</b>	-
<b>Short-term borrowings</b>			
Murabaha V	21.3.6	<b>406,788</b>	590,165
		<b>1,346,325</b>	1,172,099
Accrued finance cost		<b>7,034</b>	6,952
		<b>1,353,359</b>	1,179,051

The financial charges incurred during the period increased on account of increase in amount of borrowings and increase in SAIBOR since the second half of 2022. Certain credit facility agreements contain financial covenants requiring maintenance of certain financial ratios and other matters, of which the Company was in compliance with at 31 December 2023.

During the year ended 31 December 2023, the Company made early repayments of borrowings under certain facilities and entered into a new facility agreement (Murabaha VI and Murabaha VII) with another commercial bank on favorable terms agreed under a separate agreement. There was no gain or loss on the extinguishment of the borrowings upon early repayment.

Details of the type of borrowings facilities as allocated to and availed by the Company are as follows:

*Long term borrowings*

**21.3.1 Murabaha I**

Total amount allocated to UCFS under such facility is Saudi Riyals 300 million. Each tranche of facility utilization is repayable in 20 quarterly installments commencing 6 months after receipt of the borrowed amount. During 2023, UCFS made early repayment of borrowings in full amounting to Saudi Riyals 216.9 million (As at 31 December 2022, UCFS had an outstanding loan balance of Saudi Riyals 206.9 against this facility).

**21.3.2 Murabaha III**

Total amount allocated to UCFS under such facility is Saudi Riyals 500 million. Each tranche of facility utilization is repayable in 48 monthly installments commencing 6 months from receipt of the borrowed amount. During 2023, UCFS made early repayment of borrowings in full amounting to Saudi Riyals 33 million (31 December 2022: early repayment amounting to Saudi Riyals 360.8 million).

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#### **21 Borrowings (continued)**

##### **21.3.3 Murabaha IV**

Total amount allocated to UCFS under such facility is Saudi Riyals 400.0 million. Each tranche of facility utilization is repayable in 16 quarterly installments commencing 6 months after receipt of the borrowed amount. As at 31 December 2023, UCFS has an outstanding loan balance of Saudi Riyals 250 million against this facility (31 December 2022: Saudi Riyals 350.0 million). Under the terms of this borrowing facility, UCFS is required to maintain a minimum ratio of 1.2 to 1 of earnings before interest, tax, depreciation and amortization ("EBITDA") to Debt Service. As at 31 December 2023, the ratio of EBITDA to debt service was 4.8 (31 December 2022: 1.6), in compliance with the requirements of the minimum ratio as set out in such facility agreement. UCFS is also required to monitor the aggregate amount of financing offered by UCFS in line with the regulatory requirements of SAMA, which requires companies engaged in financing other than real estate, not to exceed aggregate financing to capital ratio of three times, which is calculated by dividing net investment in Islamic financing contracts by total equity. As at 31 December 2023, such ratio of investment in Islamic financing contracts to net equity was 2.2 (31 December 2022: 2.3), in compliance with the requirements of SAMA.

##### **21.3.4 Murabaha VI**

Total amount allocated to UCFS under such facility is Saudi Riyals 400.0 million. Each tranche of facility utilization is repayable in 20 quarterly installments commencing 3 months after receipt of the borrowed amount. As at 31 December 2023, UCFS has an outstanding loan balance of Saudi Riyals 356.4 million against this facility (31 December 2022: Nil). Under the terms of this new borrowing facility availed in 2023, UCFS is required to maintain a minimum current ratio of 1.05. As at 31 December 2023, the current ratio was 2.4, in compliance with the requirements of the minimum ratio as set out in such facility agreement.

##### **21.3.5 Murabaha VII**

Total amount allocated to UCFS under such facility is Saudi Riyals 400.0 million. Each tranche of facility utilization is repayable in 20 quarterly installments commencing 3 months after receipt of the borrowed amount. As at 31 December 2023, UCFS has an outstanding loan balance of Saudi Riyals 333.1 million against this facility (31 December 2022: Nil). Under the terms of this new borrowing facility availed in 2023, UCFS is required to maintain a minimum current ratio of 1.1. As at 31 December 2023, the current ratio was 2.4, in compliance with the requirements of the minimum ratio as set out in such facility agreement.

All loan facilities above are denominated in Saudi Riyals and bear financial charges based on Saudi Arabian Interbank Offered Rate ("SAIBOR") ranging between SAIBOR plus 0.85% to 1.25% (31 December 2022: SAIBOR plus 1.1% to 1.4%). The Group's borrowings are carried at amortised cost and are periodically contractually repriced after every three months, in line with the terms of the borrowing arrangements. The financial charges incurred during the period increased on account of increase in amount of borrowings and increase in SAIBOR since the second half of 2022. Certain credit facility agreements contain financial covenants requiring maintenance of certain financial ratios and other matters, of which the Group was in compliance with at 31 December 2023.

#### *Short term borrowings*

##### **21.3.6 Murabaha V**

During the year ended 31 December 2023, the Group has availed short term borrowing facilities with certain local commercial banks for working capital management. Total amount available to the Group under such facilities is Saudi Riyals 525 million. Each tranche of such borrowings is repayable between 30 to 90 days from receipt of the borrowed amount. As at 31 December 2023, the Group had an outstanding balance of Saudi Riyals 406.8 million against such facilities (31 December 2022: Saudi Riyals 340.2 million).

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**22 Deferred revenue**

As at 31 December, deferred revenue represents the following:

	<b>Note</b>	<b>2023</b>	<b>2022</b>
Extended warranty program	22.1	<b>269,591</b>	239,730
Customer loyalty program	22.2	<b>10,358</b>	-
		<b>279,949</b>	<b>239,730</b>

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

	<b>2023</b>	<b>2022</b>
Non-current portion	<b>139,478</b>	126,433
Current portion	<b>140,471</b>	113,297
	<b>279,949</b>	<b>239,730</b>

**22.1 Extended warranty program:**

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

The breakup of current and non-current portion of the deferred revenue from extended warranty program is as follows:

	<b>2023</b>	<b>2022</b>
Non-current portion	<b>139,478</b>	126,433
Current portion	<b>130,113</b>	113,297
	<b>269,591</b>	<b>239,730</b>

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

	<b>2023</b>	<b>2022</b>
At January	<b>239,730</b>	195,157
Contracts issued	<b>179,315</b>	165,806
Revenue recognized	<b>(149,454)</b>	(121,233)
At 31 December	<b>269,591</b>	<b>239,730</b>

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

Revenue recognised that was included in the contract liability balance at the beginning of the period amounted to Saudi Riyals 113.3 million (31 December 2022: Saudi Riyals 86.3 million).

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**22 Deferred revenue (continued)**

*22.2 Customer loyalty program*

During the year ended 31 December 2023, the Group has introduced a new customer loyalty program whereby the Group's customers are offered certain additional discounts and other benefits against a membership fee charge. During 2023, the Group issued loyalty program contracts amounting to Saudi Riyals 10.4 million (2022: Saudi Riyals nil), however, the associated revenue for the year ended 31 December 2023 is immaterial to these consolidated financial statements. As at 31 December 2023, the entire amount of Saudi Riyals 10.4 million has been classified in the current portion of the deferred revenue.

**23 Lease liabilities**

	<b>Note</b>	<b>2023</b>	<b>2022</b>
At 1 January		<b>601,574</b>	552,045
Additions		<b>61,163</b>	100,600
Finance cost	8	<b>41,983</b>	38,733
Repayments		<b>(75,140)</b>	(86,336)
Remeasurement		-	22,529
Termination		<b>(10,801)</b>	(25,997)
At 31 December		<b>618,779</b>	601,574

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

Non-current portion	<b>588,699</b>	573,319
Current portion	<b>30,080</b>	28,255
	<b>618,779</b>	601,574

Maturity profile of lease liabilities is disclosed in Note 31.

*(i) Other amounts recognised in profit and loss*

	<b>2023</b>	<b>2022</b>
Expense relating to short-term leases (included in selling and marketing and general and administrative expenses)	<b>15,503</b>	3,474

The total cash outflow for leases in 2023 was Saudi Riyals 90.6 million (2022: Saudi Riyals 89.8 million).

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

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

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

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

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**24 Employee benefit obligations****24.1 General description of the plan**

The Group operates defined benefit plans in line with the labor law requirements in the Kingdom of Saudi Arabia ("KSA"), the Kingdom of Bahrain ("Bahrain") and the Sultanate of Oman ("Oman"). The end of service benefit payments under the plans are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the labor laws of KSA, Bahrain and Oman. Employees' end of service benefit plans are unfunded plans and the benefit payment obligations are met when they fall due upon employee's termination of employment. The latest valuation of employee benefit obligations under the projected unit credit method was carried out by an independent actuary as at 31 December 2023.

**24.2 Movement in net liability recognised in the consolidated statement of financial position**

	<b>2023</b>	<b>2022</b>
1 January	<b>79,090</b>	73,875
Current service cost	<b>9,233</b>	10,079
Interest expense	<b>3,112</b>	2,266
Remeasurements	<b>(276)</b>	(77)
Payments	<b>(6,234)</b>	(7,053)
31 December	<b>84,925</b>	79,090

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

	<b>2023</b>	<b>2022</b>
Current service cost	<b>9,233</b>	10,079
Interest expense	<b>3,112</b>	2,266
<b>Total amount recognised in profit or loss</b>	<b>12,345</b>	12,345
<u>Remeasurements</u>		
Loss (gain) due to change in financial assumptions	<b>10</b>	(612)
Loss due to change in demographic assumptions	-	156
(Gain) loss due to change in experience adjustments	<b>(286)</b>	379
<b>Total amount recognised in other comprehensive income</b>	<b>(276)</b>	(77)

**24.4 Key actuarial assumptions**

	<b>2023</b>	<b>2022</b>
Discount rate	<b>4.65% - 6.20%</b>	4.55% - 6.5%
Salary growth rate	<b>2.00%</b>	2.00%
Retirement age	<b>60 years</b>	60 years
Withdrawal rate	<b>22.4% to 47.3%</b>	22.4% to 47.3%

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**24 Employee benefit obligations (continued)**
**24.5 Sensitivity analysis for significant actuarial assumptions**

	<b>Change in assumption</b>		<b>Impact on employee benefit obligations</b>	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
<b>2023</b>				
Discount rate	<b>0.50%</b>	<b>0.50%</b>	<b>(1,271)</b>	<b>1,315</b>
Salary growth rate	<b>0.50%</b>	<b>0.50%</b>	<b>1,412</b>	<b>(1,092)</b>
	<b>Change in assumption</b>		<b>Impact on employee benefit obligations</b>	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
<b>2022</b>				
Discount rate	0.50%	0.50%	(2,148)	1,243
Salary growth rate	0.50%	0.50%	1,281	(2,199)

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

The methods and assumptions used in preparing the sensitivity analysis for 2023 and 2022 presented above are consistent.

**24.6 Expected maturity analysis**

The weighted average duration of the defined benefit obligation is 3.0 years (2022: 4.4 years). The expected maturity analysis of employee benefit obligations is as follows:

	<b>Less than a year</b>	<b>1 - 2 years</b>	<b>2 - 5 years</b>	<b>5 -10 years</b>	<b>Total</b>
<b>31 December 2023</b>	<b>22,833</b>	<b>21,933</b>	<b>44,882</b>	<b>35,865</b>	<b>125,513</b>
<b>31 December 2022</b>	19,307	14,937	32,308	40,822	107,374

**25 Trade and other payables**

	<b>Note</b>	<b>2023</b>	<b>2022</b>
Trade payables		<b>547,975</b>	469,330
Advance from customers		<b>64,970</b>	37,504
Salaries and benefits		<b>47,797</b>	47,986
Accrued expenses		<b>51,758</b>	56,013
VAT payable		<b>26,528</b>	45,773
Gift cards		<b>20,016</b>	22,129
Due to related parties	27	<b>865</b>	673
Others		<b>16,691</b>	10,747
		<b>776,600</b>	690,155

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**25 Trade and other payables (continued)**

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

**26 Zakat and income tax matters**

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

**26.1 Components of approximate zakat base**

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

**26.2 Provision for zakat and income tax**

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

	<b>Zakat</b>	<b>Income tax</b>	<b>Total</b>
<b>2023</b>			
1 January 2023	40,227	973	<b>41,200</b>
Provision	26,872	1,849	<b>28,721</b>
Payments	(29,813)	(1,603)	<b>(31,416)</b>
<b>31 December 2023</b>	<b>37,286</b>	<b>1,219</b>	<b>38,505</b>
<b>2022</b>			
1 January 2022	29,321	2,796	32,117
Provision	34,413	1,483	35,896
Payments	(23,507)	(3,306)	(26,813)
<b>31 December 2022</b>	<b>40,227</b>	<b>973</b>	<b>41,200</b>

**26.3 Status of final assessments**

The Group has obtained zakat certificates from the ZATCA for the years through 2022. The ZATCA has finalized the Group's zakat assessments for the years through 2018.

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**26 Zakat and income tax matters** (continued)

**26.3 Status of final assessments** (continued)

During 2021, the Group received assessments from the ZATCA for the years 2019 and 2020 claiming additional zakat amounting to Saudi Riyals 9.1 million. During the year ended 31 December 2022, the Group filed an appeal against such assessment with the General Secretariat of Zakat, Tax and Customs Committees. Management believes that the provisions maintained in these consolidated financial statements are adequate and no further provision is required.

Assessments for the years 2021 and 2022 are currently under review by the ZATCA. Zakat and income tax assessments for UCFS and eXtra Oman respectively for years since inception are currently under review by the relevant tax authorities.

**27 Segmental information**

*a) Operating segments*

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

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

The following summary describes the operations of each reportable segment.

<b>Reportable segment</b>	<b>Operation</b>
Sales and services	Retail, wholesale, e-commerce, installation and repair services of electronic products, computers, smartphones and accessories, extended warranties, gift cards and installment sales.
Consumer finance	Consumer financing under Murabaha, Tawarruq and Islamic credit card financing arrangements (Tas'heel).

The segmental information was as follows:

**As at and for the year ended 31 December 2023**

	<b>Sales and services</b>	<b>Consumer finance</b>	<b>Others</b>	<b>Intersegment eliminations</b>	<b>Total from external customers</b>
Revenue					
- Point in time	<b>5,523,622</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,523,622</b>
- Over time	<b>157,142</b>	<b>523,855</b>	<b>22,057</b>	<b>(25,988)</b>	<b>677,066</b>
	<b>5,680,764</b>	<b>523,855</b>	<b>22,057</b>	<b>(25,988)</b>	<b>6,200,688</b>
Net profit	<b>371,738</b>	<b>212,355</b>	<b>213,089</b>	<b>(406,720)</b>	<b>390,462</b>
Total assets	<b>3,471,115</b>	<b>1,926,190</b>	<b>906,910</b>	<b>(1,862,704)</b>	<b>4,441,511</b>
Total liabilities	<b>2,139,923</b>	<b>1,038,991</b>	<b>211,623</b>	<b>(233,391)</b>	<b>3,157,146</b>



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**27 Segmental information (continued)**

*b) Operating segments (continued)*

**As at and for the year ended 31 December 2022**

	<b>Sales and services</b>	<b>Consumer finance</b>	<b>Others</b>	<b>Intersegment eliminations</b>	<b>Total from external customers</b>
Revenue					
- Point in time	5,485,581	-	-	-	5,485,581
- Over time	132,430	416,956	20,033	(23,934)	545,485
	5,618,011	416,956	20,033	(23,934)	6,031,066
Net profit	444,099	193,625	193,631	(391,181)	440,174
Total assets	3,132,672	1,612,664	697,868	(1,473,104)	3,970,100
Total liabilities	1,927,513	938,095	215,363	(250,171)	2,830,800

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

*b) Geographical segments*

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

**As at and for the year ended 31 December 2023**

	<b>Kingdom of Saudi Arabia</b>	<b>Others</b>	<b>Intersegment eliminations</b>	<b>Total</b>
Revenue				
- Point in time	5,074,720	448,902	-	5,523,622
- Over time	672,732	30,322	(25,988)	677,066
	5,747,452	479,224	(25,988)	6,200,688
Net profit	814,912	(17,730)	(406,720)	390,462
Total assets	6,020,503	283,712	(1,862,704)	4,441,511
Total liabilities	3,153,212	237,325	(233,391)	3,157,146

**As at and for the year ended 31 December 2022**

	<b>Kingdom of Saudi Arabia</b>	<b>Others</b>	<b>Intersegment eliminations</b>	<b>Total</b>
Revenue				
- Point in time	5,089,576	396,005	-	5,485,581
- Over time	542,141	27,278	(23,934)	545,485
	5,631,717	423,283	(23,934)	6,031,066
Net profit	826,485	4,870	(391,181)	440,174
Total assets	5,171,550	271,654	(1,473,104)	3,970,100
Total liabilities	2,877,080	203,891	(250,171)	2,830,800

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**28 Related party transactions and balances**

Related parties comprise the shareholders, directors, affiliated companies (representing entities which are directly or indirectly controlled by or under the significant influence of the Company's shareholders), and key management personnel. Related parties also include business entities in which certain directors or senior management have an interest (other related parties). As at 31 December 2023, Al Fozan Holding Company is the major shareholder of the Company with a shareholding of 20.0% (31 December 2022: 23.7%).

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

<b>Nature of transactions</b>	<b>Relationship</b>	<b>2023</b>	<b>2022</b>
Sales	Major shareholder	<b>308</b>	360
	Associated companies	<b>114</b>	2,298
Purchases	Associated companies	<b>1,323</b>	1,118
Rental income	Associated companies	<b>1,566</b>	1,566
Rent expense	Associated companies	<b>2,021</b>	2,021
Other expenses charged by the Company	Associated companies	<b>344</b>	427
Other expenses charged to the Company	Associated companies	<b>25</b>	641
Acquisition of property and equipment	Associated companies	-	21
Shared services provided	Associated companies	<b>1,694</b>	1,069

The transactions are based on terms agreed as per signed agreements between the Company and the related parties.

(b) *Key management personnel compensation*

	<b>2023</b>	<b>2022</b>
Salaries and other employee benefits	<b>21,015</b>	19,911
Board of Directors' fees	<b>3,589</b>	3,631
	<b>24,604</b>	23,542

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

	<b>2023</b>	<b>2022</b>
United Homeware Company	<b>1,746</b>	1,167
Retal Urban Development Company	-	31
Al Fozan Holding Company	<b>37</b>	16
	<b>1,783</b>	1,214

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**28 Related party transactions and balances (continued)***(d) Due to related parties - affiliated companies*

	<b>2023</b>	<b>2022</b>
Madar Hardware Company	<b>834</b>	642
Al Yassra Trading Company	<b>31</b>	31
	<b>865</b>	673

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

**29 Earnings per share**

	<b>2023</b>	<b>2022</b>
Profit for the year attributable to the shareholders of the Company	<b>390,462</b>	440,174

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

	<b>2023</b>	<b>2022</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>76,205,885</b>	75,184,219
Adjustment for treasury shares	<b>3,794,115</b>	4,815,781
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>80,000,000</b>	80,000,000

**Earnings per share (Saudi Riyals)**

Basic earnings per share	<b>5.12</b>	5.85
Diluted earnings per share	<b>4.88</b>	5.50

**30 Employees' Stock Option Program**

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

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

Under the terms of the plan, the Options will vest by the end of years from 2021 through 2028. Only employees that remain in service until the vesting dates of their respective Options, will become entitled to exercise the Options.

The ESOP is under the supervision of the Nomination and Remuneration Committee ("NRC") of the Board of Directors.

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**30 Employees' Stock Option Program (continued)**

Under the ESOP, Options were granted on 19 September 2018 ("ESOP 2018"), 1 January 2020 ("ESOP 2020"), 1 January 2021 ("ESOP 2021") and 1 January 2023 ("ESOP 2023").

The total expense related to the program for the year ended 31 December 2023 amounting to Saudi Riyals 24.5 million (2022: Saudi nil) was charged to the employees' benefit expenses with a corresponding increase in the consolidated statement of changes in equity. During the year ended 31 December 2023, NRC approved an exercise price modification to prior ESOP 2018 and ESOP 2020 plans, as result of which an additional 466,724 options were exercised and settled during the year ended 31 December 2023. The NRC also approved the ESOP 2023 under which 5.4 million options have been granted to the Eligible Employees.

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

	<b>Average exercise price per share option</b>	<b>2023</b>	<b>Average exercise price per share option</b>	<b>2022</b>
At 1 January	<b>32.27</b>	<b>876</b>	41.45	2,238
Granted during the year	<b>63.51</b>	<b>5,867</b>	-	-
Forfeited during the year	-	-	85.00	(1)
Exercised during the year	<b>0.88</b>	<b>(1,034)</b>	40.04	(1,580)
Adjustment for capital increase	-	-	-	219
At 31 December		<b><u>5,709</u></b>		<b><u>876</u></b>

	<b>Average exercise price per share option</b>	<b>2023</b>	<b>Average exercise price per share option</b>	<b>2022</b>
Exercisable at the end of the year	<b>54.62</b>	<b>52</b>	32.27	858

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

<b>Grant date</b>	<b>Expiry date</b>	<b>Exercise price</b>	<b>Share options 2023</b>	<b>Share options 2022</b>
19 September 2018	December 2027	30.03	<b>11</b>	743
1 January 2020	June 2028	46.69	<b>6</b>	115
1 January 2021	December 2028	63.75	<b>35</b>	35
1 January 2023	December 2032	69.00	<b><u>5,400</u></b>	-
Total			<b><u>5,452</u></b>	<b><u>893</u></b>

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

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**30 Employees' Stock Option Program (continued)**

	<b>ESOP 2023</b>	<b>ESOP 2021</b>	<b>ESOP 2020</b>	<b>ESOP 2018</b>
<b>Inputs to the model:</b>				
Dividend Yield (%)	5	5	5	5
Expected Volatility (%)	27.3	37	32.05	31.9
Risk Free Interest Rate (%)	4.2	1.9	2.13	3.23
Contractual Life of Share Options (Years)	5.0	8.0	8.5	9.3
Share Price (Saudi Riyals) at Grant Date	69.4	85.0	74.7	48.05
Share Price (Saudi Riyals) at Grant Date (Adjusted for Capital increase during 2020)	N/A	N/A	62.25	40.04
Share Price (Saudi Riyals) at Grant Date (Adjusted for Capital increase during 2022)	N/A	63.75	46.69	30.03
Exercise Price (Saudi Riyals) at Grant Date	69.0	85.0	74.7	48.05
Exercise Price (Saudi Riyals) at Grant Date (Adjusted for Capital increase during 2020)	N/A	N/A	62.25	40.04
Exercise Price (Saudi Riyals) at Grant Date (Adjusted for Capital increase during 2022)	N/A	63.75	46.69	30.03
Exercise Price (Saudi Riyals) at Grant Date (if additional performance target met)	N/A	N/A	-	-
Fair Value per Option	11.5	18.1	13.7	9.6
Fair Value per Option (Adjusted for Capital increase)	N/A	N/A	11.4	8
Fair Value per Option (Adjusted for Capital increase and modified grant terms)	N/A	N/A	13.4	9.4
Maximum remaining Contractual Life (Years)	9.0	5.0	4.5	4

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

**31 Financial risk management**

**31.1 Financial risk factors**

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

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**31 Financial risk management** (continued)**31.1 Financial risk factors** (continued)

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

*(a) Market risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks - currency risk, profit rate risk and price risk.

*(i) Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, United States Dollars (USD), United Arab Emirates Dirhams (AED), Omani Riyal (RO), Bahraini Dinar (BD), Canadian Dollars (CAD), Egyptian Pounds (EGP) and Euros (EUR). Since Saudi Riyal, AED, RO and BD are directly or indirectly pegged, management of the Group believes that the currency risk for the financial instruments related to AED, USD, RO and BD is not significant.

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

	EGP	EUR
<b>31 December 2023</b>		
Trade and other liabilities	<b>42,504</b>	-
Total	<b>42,504</b>	-
	EGP	EUR
<b>31 December 2022</b>		
Trade and other liabilities	<b>27,675</b>	<b>163</b>
Total	<b>27,675</b>	<b>163</b>

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

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**31 Financial risk management** (continued)

**31.1 Financial risk factors** (continued)

(a) *Market risk* (continued)

(ii) *Profit rate risk*

Profit rate risk is the uncertainty of future earnings and expenses resulting from fluctuations in profit rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to profit rate adjustment within a specified period. The most important source of such risk is the Group's financing activities and long-term borrowings. As at the consolidated statement of financial position date, the Group has profit bearing financial assets of Saudi Riyals 1,872.0 million (31 December 2022: Saudi Riyals 1,557.2 million). However, the profit rates have been agreed with the respective customers upon inception of the Islamic financing contracts. Further, the Group also has variable profit bearing financial liabilities of Saudi Riyals 1,353.4 million (31 December 2022: Saudi Riyals 1,179.1 million) and had the profit rate varied by 1% with all the other variables held constant, total comprehensive income /loss for the year would have been approximately Saudi Riyals 3.7 million (31 December 2022: Saudi Riyals 12.6 million) higher / lower, as a result of lower / higher finance cost on variable rate borrowings.

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

(iii) *Price risk*

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

(b) *Credit risk*

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

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

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

(i) *Investment in Islamic financing contracts*

Investment in Tawarruq and Murabaha finance contracts is generally exposed to significant credit risk. Therefore, the Group has established procedures to manage credit exposure including evaluation of customers' credit worthiness, formal credit approvals and assigning credit limits.

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**31 Financial risk management** (continued)**31.1 Financial risk factors** (continued)*(b) Credit risk* (continued)*(i) Investment in Islamic financing contracts* (continued)

The overall decision to lend to a particular customer is based on the following key parameters:

- Dual credit score i.e. SIMAH and internal application scoring system;
- Minimum income level and maximum debt burden of the borrower; and
- Loan repayment history with other financial institutions sourced from SIMAH.

The Group does not have any significant concentration of credit risk since it enters into Islamic Financing Contracts with individual customers only. At the inception of the contract, internal credit risk ratings are allocated to each exposure. These credit risk grades are defined using a variety of qualitative and quantitative factors including income levels, employment segment, nationality etc.

A significant number of customers are Government sector employees. The Group generally receives repayments through variable channels such as SADAD and bank transfers. The Group has approved collection policies and procedures establishing a collection strategy to follow up with the delinquent customers. In order to monitor exposure to credit risk, reports are reviewed by the Risk and Credit Management Committee on a quarterly basis. Furthermore, the Group has also strengthened its legal department in order to be actively involved in the collection process of delinquent customers. An allowance for ECL is maintained at a level which, in the judgment of management, is adequate to provide for potential losses that can be reasonably anticipated.

The following tables sets out information about the credit quality of investment in Islamic financing contracts.

(a) Stage-wise analysis of gross carrying amounts as at 31 December, in comparison with internal credit risk rating assigned at the inception of the respective contracts. The amounts in the table represent gross carrying amounts.

	<b>Performing (Stage 1)</b>	<b>Under- performing (Stage 2)</b>	<b>Non- performing (Stage 3)</b>	<b>Total</b>
<b>31 December 2023</b>				
<i>Internal credit risk ratings</i>				
Low risk	888,086	32,479	43,996	<b>964,561</b>
Medium risk	725,724	51,530	78,638	<b>855,892</b>
High risk	769,873	74,475	112,865	<b>957,213</b>
	<b>2,383,683</b>	<b>158,484</b>	<b>235,499</b>	<b>2,777,666</b>
	<b>Performing (Stage 1)</b>	<b>Under- performing (Stage 2)</b>	<b>Non- performing (Stage 3)</b>	<b>Total</b>
<b>31 December 2022</b>				
<i>Internal credit risk ratings</i>				
Low risk	829,199	8,413	28,442	866,054
Medium risk	677,160	10,989	43,467	731,616
High risk	627,751	14,410	92,140	734,301
	<b>2,134,110</b>	<b>33,812</b>	<b>164,049</b>	<b>2,331,971</b>



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**31 Financial risk management** (continued)

**31.1 Financial risk factors** (continued)

(b) *Credit risk (continued)*

(i) *Investment in Islamic financing contracts (continued)*

(b) Ageing analysis of net investment in Islamic financing contracts based on due balances according to the respective contractual repayment schedules:

	<b>Installment sales receivable</b>		<b>Tawarruq finance</b>		<b>Murabaha finance</b>		<b>Islamic Credit Card</b>		<b>Total</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Not past due	-	41	<b>1,362,201</b>	1,067,030	<b>229,950</b>	368,275	<b>56,561</b>	5,652	<b>1,648,712</b>	1,440,998
Past due 1-30 days	-	-	<b>66,417</b>	35,760	<b>8,811</b>	11,020	<b>1,504</b>	189	<b>76,732</b>	46,969
Past due 31-90 days	-	90	<b>27,432</b>	19,074	<b>4,793</b>	4,496	<b>1,763</b>	496	<b>33,988</b>	24,156
Past due 91-180 days	-	-	<b>44,212</b>	34,893	<b>10,487</b>	9,421	<b>3,348</b>	496	<b>58,047</b>	44,810
Past due 181-364 days	-	-	<b>65,842</b>	24,580	<b>26,368</b>	8,350	<b>1,561</b>	-	<b>93,771</b>	32,930
Over 365 days	<b>25,425</b>	28,223	<b>14,575</b>	8,565	<b>4,114</b>	3,088	<b>989</b>	-	<b>45,103</b>	39,876
	<b>25,425</b>	28,354	<b>1,580,679</b>	1,189,902	<b>284,523</b>	404,650	<b>65,726</b>	6,833	<b>1,956,353</b>	1,629,739
Less: Impairment for Islamic financing contracts	<b>(25,425)</b>	(25,790)	<b>(49,363)</b>	(40,064)	<b>(11,650)</b>	(6,326)	<b>(2,530)</b>	(365)	<b>(88,968)</b>	(72,545)
Net investment in Islamic financing contracts	-	2,564	<b>1,531,316</b>	1,149,838	<b>272,873</b>	398,324	<b>63,196</b>	6,468	<b>1,867,385</b>	1,557,194

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**31 Financial risk management** (continued)

**31.1 Financial risk factors** (continued)

(b) *Credit risk* (continued)

(i) *Investment in Islamic financing contracts* (continued)

**Measurement of ECL**

The Group applies the IFRS 9 general approach to measuring expected credit losses which uses a 12 month or lifetime expected loss allowance as applicable for investment in Islamic financing contracts. The assessment of credit risk in the net investment in Islamic financing receivables requires further estimations of credit risk using ECL which is derived by Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD").

The Group measures an ECL at a contract level considering the EAD, PD, LGD and discount rates. PD estimates are estimates at a certain date, based on the term structures as provided below. For LGD estimates, the Group uses present value of recoveries for loss accounts adjusted by the forward-looking information. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract i.e. contractual repayments. Such financing contracts are not collateralised. For discounting, the Group has used each contract's effective profit rate.

The Group's management believes that adequate ECL allowance has been made, where required to address the credit risk. Also see Note 15.

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

PD measures the estimated likelihood of default over a time period. PD has been calculated as a probability that an exposure will move to more than 90 days past due in the next 12 months or over the remaining lifetime of the obligation. Refer Section (d) below for further details regarding the methodology and changes made during the year.

(b) **Significant increase in credit risk**

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, management considers the 'days past due' analysis of each exposure and certain other qualitative factors such as monitoring the forward-looking information about financial difficulties faced by private sector employers of the customers and nationalization targets for specific industry groups etc. Management considers such analysis to be an effective and efficient measure of monitoring significant increase in credit risk, without undue cost and effort, as it enters into Islamic Financing Contracts with individual customers only.

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**31 Financial risk management** (continued)

**31.1 Financial risk factors** (continued)

(b) *Credit risk* (continued)

(i) *Investment in Islamic financing contracts* (continued)

**Measurement of ECL** (continued)

(c) Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Refer Section (d) below for further details regarding the methodology and changes made during the year.

(d) Changes in estimates and underlying judgements, including forward-looking information

During the year ended 31 December 2023, there were certain changes made to the underlying methodology and assumptions used for determination of ECL against Investment in Islamic financing contracts. The previous ECL model was developed in the initial phase of the Group's business activities and historical collection and default trends from the Company's murabaha portfolio were used, being the best available information at that time. The Group's portfolio has matured since then and the ECL models have now been updated, to better reflect the changes in historical data, macroeconomic indicators, industry trends, credit quality and diversification in the portfolio. The summary of key changes made, along with their impact as at 31 December 2023, is as follows:

- *Probability of default (PD):*

Probability of default is the likelihood that a borrower will default on their financial obligation. It is typically based on historical default rates and other forward looking information such as economic indicators or borrower-specific information. PD has been calculated as a probability that an exposure will move to more than 90 days past due in the next 12 months or over the remaining lifetime of the obligation. During the year ended 31 December 2023, 'Through-the-Cycle' estimates were recalculated based on updated collection and default trends (until 31 December 2022, "Such Through-the-Cycle" PD rates are later converted to 'Point-in-time' PD rates by incorporating forward-looking information (see below) using the Vasicek framework.

Since numerous contracts in Tawarruq portfolio have completed their life cycle/tenure, management has now used Tawarruq specific collection and default trends to compute the PDs whereas previously used loss rates for Tawarruq portfolio were driven from historical data of murabaha given that sufficient historical data was not available for Tawarruq portfolio. Given the availability of more default related information and experience, management has now transitioned to a more comprehensive approach with separate PDs being derived for each portfolio (i.e. Murabaha, Tawarruq and credit cards).

Such change in PD inputs resulted in an increase of Saudi Riyals 20.2 million, in the ECL allowance as at 31 December 2023. The stage-wise analysis is as follows:

	<b>Impact of change in PD</b>
Performing (Stage 1)	4,983
Under-performing (Stage 2)	15,173
Non-performing (Stage 3)	-
	<u>20,156</u>

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**31 Financial risk management** (continued)**31.1 Financial risk factors** (continued)*(b) Credit risk* (continued)*(i) Investment in Islamic financing contracts* (continued)**Measurement of ECL** (continued)*(d) Changes in estimates and underlying judgements* (continued)*- Loss given default (LGD):*

Loss given default is the amount of financial loss that an entity would incur if a borrower defaulted on their financial obligation. It is typically expressed as a percentage of the outstanding principal amount of the financial asset. The LGD component estimates the expected loss if the borrower defaults, taking into account the recovery rate that could be achieved from any collateral or other sources of recovery. Previously, the Group had used present value of historical recoveries from loss accounts of Murabaha Portfolio to arrive at the LGD of 28.11%. However, the LGD used for Tawarruq portfolio was 45% in accordance with the Basel guidelines considering that the Group had insufficient historical information.

During the year ended 31 December 2023, LGD inputs have been recalculated using the 'Through-the-Cycle' estimates based historical collection and default trends of both Murabaha and Tawarruq portfolios from 2019 through 2022, which are later converted to 'Point-in-time' LGD rates using the Jacob-Frye methodology.

Accordingly, the updated LGD rate was determined to be 29.2% which has been used for determination of ECL for both Murabaha and Tawarruq portfolios considering similar customer characteristics. Management also considered the use of Tawarruq specific LGD rates, however, while such portfolio has matured since the start of business activities, and sufficient historical information is available in relation to the default trends, management still believes that the recovery related information is insufficient as at 31 December 2023 and will be reassessed in the future reporting periods.

Such change in LGD inputs resulted in a decrease of Saudi Riyals 22.1 million in the ECL allowance as at 31 December 2023. The stage-wise analysis is as follows:

	<b>Impact of change in LGD</b>
Performing (Stage 1)	(3,509)
Under-performing (Stage 2)	(1,477)
Non-performing (Stage 3)	(17,095)
	<u>(22,081)</u>

*- Macroeconomic factors:*

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. During the year ended 31 December 2023, macroeconomic data containing 300 macroeconomic variables (including previously used 'crude oil price' and 'changes in unemployment statistics') were analysed from Economic Intelligence Unit (EIU) and weighted average default rates were calculated from the historical data to determine appropriate predictive variables.

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(All amounts in Saudi Riyals thousands unless otherwise stated)

**31 Financial risk management** (continued)**31.1 Financial risk factors** (continued)(b) *Credit risk* (continued)(i) *Investment in Islamic financing contracts* (continued)**Measurement of ECL** (continued)

(d) Changes in estimates and underlying judgements (continued)

- Macro economic factors: (continued)

Based on such analysis carried out by the management and as a result of more experience with the portfolio, real gross domestic product (% change per annum), an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, and government consumption (% change per annum), which is proportion of a country's total economic output that is spent by the government on goods and services, were identified as the most appropriate macroeconomic factors with the highest correlation to the historical collection and default trends.

The Group measures the ECL as either a probability-weighted 12-month ECL (Stage 1) or a probability-weighted lifetime ECL (Stage 2 and 3). These probability weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weightings of 32.95%, 34.1% and 32.95% for “upturn”, “baseline” and “downturn” scenarios respectively (31 December 2022: 30%, 40% and 30% respectively) which are computed through statistical methodologies.

As at 31 December 2023, the real gross domestic product (% change per annum) and government consumption (% change per annum) incorporated in the upturn, baseline and downturn scenarios were as follows:

	<b>Upturn</b>	<b>Baseline</b>	<b>Downturn</b>
Real gross domestic product (% change per annum)	10.6%	7.2%	3.8%
Government consumption (% change per annum)	10.1%	3.1%	(3.9%)

As at 31 December 2022, the crude oil price incorporated in the upturn, baseline and downturn scenarios was United Standard Dollars (“USD”) 97.5, USD 88.2 and USD 69.7 per barrel respectively and the unemployment factor incorporated in the calculation of changes in unemployment statistics was 5.8%, which contributed to determination of the overall scalar factor used to incorporate the impact of forward-looking information to the ECL computation.

Such changes in macroeconomic factors, scenario weightings and certain other factors resulted in a decrease of Saudi Riyals 7.0 million, in the ECL allowance as at 31 December 2023, which is further analysed in stages as follows:

	<b>Impact of change in LGD</b>
Performing (Stage 1)	(1,596)
Under-performing (Stage 2)	(1,936)
Non-performing (Stage 3)	(3,406)
	<u>(6,938)</u>

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**31 Financial risk management** (continued)**31.1 Financial risk factors** (continued)(b) *Credit risk* (continued)(i) *Investment in Islamic financing contracts* (continued)**Measurement of ECL** (continued)(e) *Sensitivity analysis:*

The table below illustrates the sensitivity of ECL to key factors, with all other variables held constant, noting that the macroeconomic factors present dynamic relationships between them:

**Impact on statement of  
profit or loss and other  
comprehensive income  
for the year ended 31  
December 2023**  
(in millions)

**Key assumptions**

*Macroeconomic factors (real gross domestic product and government consumption factors)*

Increase by 10%	<b>(0.5)</b>
Decrease by 10%	<b>0.5</b>

*PD and LGD*

Increase by 10%	<b>(6.7)</b>
Decrease by 10%	<b>7.3</b>

*Scenario weightings*

100% weightage assigned to base scenarios	<b>3.7</b>
100% weightage assigned to downside scenarios	<b>(22.1)</b>

(ii) *Trade and other receivables*

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

The aging analysis for trade receivables is as follows:

	<b>2023</b>	<b>2022</b>
Current	<b>65,075</b>	37,835
0-90 days past due	<b>35,636</b>	19,399
91-180 days past due	<b>549</b>	1,296
181-365 days past due	<b>112</b>	31
Above 365 days past due	<b>2,119</b>	1,826
	<b>103,491</b>	60,387

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**31 Financial risk management** (continued)

**31.1 Financial risk factors** (continued)

*(b) Credit risk (continued)*

*(ii) Trade and other receivables (continued)*

The average credit period on sales of goods is 30-90 days. No interest is charged on trade receivables. Before accepting any new customer, the Group has a credit policy set in place to assess the potential customer's credit quality and defines the credit limits. These procedures are reviewed and updated on an ongoing basis. At 31 December 2023, 48% of trade receivables were due from 2 customers (2022: 60% from 1 customer). Management believes that this concentration of credit risk is mitigated as the customer has established track record of regular and timely payments.

The expected loss rates are based on the payment profiles of sales over a period of 18 months before 31 December 2023 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the inflation rate to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. The Group does not hold any collateral as security.

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

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

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

*(iii) Net investment in finance lease*

Net investment in finance lease is stated at amortised cost. The Company uses simplified approach under IFRS 9 to calculate the ECL allowance. At 31 December 2023 and 2022, the ECL allowance on net investment in finance lease was immaterial.

*(iv) Cash and cash equivalents*

The Group uses "lower credit risk" practical expedient for the cash and cash equivalents with the assumption that the credit risk on such financial instruments has not increased significantly since initial recognition, and therefore the ECL is estimated at an amount equal to the expected credit losses for a period of 12 months.

These are placed with banks having minimum credit ratings of BBB or better, and therefore are not subject to significant credit risk. The stated rating is as per the global bank ratings by Moody's Investors Service. Management does not expect any losses from non-performance by these counterparties. At 31 December 2023 and 2022, the ECL allowance on cash at bank was immaterial.

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**31 Financial risk management** (continued)

**31.1 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. In addition, the Group has access to credit facilities as made available.

Total unused credit facilities available to the Group as at 31 December 2023 were approximately Saudi Riyals 1,178.7 million (2022: Saudi Riyals 1,947.9 million) principally representing short-term loans, long-term loans, letters of credit and letters of guarantee.

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

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

	<b>Less than one year</b>	<b>1-2 Years</b>	<b>3-5 years</b>	<b>Above 5 years</b>	<b>Total</b>
<b>31 December 2023</b>					
Trade and other payables	776,600	-	-	-	<b>776,600</b>
Borrowings	688,621	269,750	394,988	-	<b>1,353,359</b>
Lease liabilities	84,206	80,332	222,932	512,957	<b>900,427</b>
<b>Total</b>	<b>1,549,427</b>	<b>350,082</b>	<b>617,920</b>	<b>512,957</b>	<b>3,030,386</b>
<b>31 December 2022</b>					
Trade and other payables	555,428	-	-	-	555,428
Borrowings	482,621	226,660	322,514	122,799	1,154,594
Lease liabilities	82,200	166,659	218,903	481,250	949,012
<b>Total</b>	<b>1,120,249</b>	<b>393,319</b>	<b>541,417</b>	<b>604,049</b>	<b>2,659,034</b>



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**31 Financial risk management** (continued)**31.1 Financial risk factors** (continued)*(d) Capital risk management*

The Group's objectives when managing capital are to:

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain an optimal capital structure to reduce the cost of capital.

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

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

	<b>2023</b>	<b>2022</b>
Total equity	<b>1,284,365</b>	1,139,300
Borrowings	<b>1,353,359</b>	1,179,051
Total	<b>2,637,724</b>	2,318,351
Gearing ratio	<b>51.31%</b>	50.86%

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

Under the terms of certain borrowing facilities, in addition to compliance with SAMA's requirements, UCFS is required to comply with certain financial covenants, which are disclosed in detail in Note 20.

*(e) Fair value estimation*

As at 31 December 2023 and 2022, the fair values of the Group's financial instruments are estimated to approximate their carrying values since the financial instruments are short term in nature, carry interest rates which are based on prevailing market interest rates and are expected to be realized at their current carrying values within twelve months from the date of the consolidated statement of financial position. The fair values of the non-current financial instruments are estimated to approximate their carrying values as these carry interest rates which are based on prevailing market interest rates.

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**31 Financial risk management** (Continued)**31.1 Financial risk factors** (continued)*(e) Fair value estimation (continued)*

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

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

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

*(f) Net debt reconciliation*

The net debt of the Group at 31 December is as follows:

	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	<b>(151,272)</b>	(146,669)
Lease liabilities	<b>618,779</b>	601,574
Borrowings	<b>1,353,359</b>	1,179,051
Total	<b>1,820,866</b>	1,633,956

The Group's net debt reconciliation is as follows:

	<b>1 January</b>	<b>Cash flows</b>	<b>Others</b>	<b>31 December</b>
<b>2023</b>				
Cash and cash equivalents	(146,669)	(5,933)	1,330	<b>(151,272)</b>
Lease liabilities	601,574	(75,140)	92,345	<b>618,779</b>
Borrowings	1,179,051	174,360	(52)	<b>1,353,359</b>
<b>Net debt</b>	<b>1,633,956</b>			<b>1,820,866</b>
	<b>1 January</b>	<b>Cash flows</b>	<b>Others</b>	<b>31 December</b>
<b>2022</b>				
Cash and cash equivalents	(173,158)	26,489	-	(146,669)
Lease liabilities	552,045	(86,336)	135,865	601,574
Borrowings	685,798	487,120	6,133	1,179,051
<b>Net debt</b>	<b>1,064,685</b>			<b>1,633,956</b>

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**32 Financial instruments**

As at 31 December 2023 and 2022, all financial assets and financial liabilities of the Group are categorized as held at amortized cost. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values since the financial instruments are short term in nature, carry profit rates which are based on prevailing market profit rates and are expected to be realized at their current carrying values within twelve months from the date of the consolidated statement of financial position. The fair values of the non-current financial instruments are also not expected to be materially different to their carrying values as these carry profit rates which are based on prevailing market profit rates.

The breakdown of these financial assets and liabilities is as follows:

	<b>2023</b>	<b>2022</b>
<b>Assets carried at amortised cost as per statement of financial position</b>		
Investment in Islamic financing contracts	<b>1,867,385</b>	1,577,040
Trade and other receivables	<b>122,033</b>	83,994
Cash and cash equivalents	<b>151,272</b>	146,628
<b>Total</b>	<b>2,140,690</b>	1,807,662
	<b>2023</b>	<b>2022</b>
<b>Liabilities carried at amortised cost as per statement of financial position</b>		
Trade and other payables	<b>674,171</b>	551,013
Borrowings	<b>1,353,359</b>	1,179,050
Lease liabilities	<b>618,779</b>	601,574
<b>Total</b>	<b>2,646,309</b>	2,331,637

For the purpose of the financial instruments disclosure, non-financial assets and non-financial liabilities amounting to Saudi Riyals 62.8 million and Saudi Riyals 107.9 million, respectively (2022: Saudi Riyals 49.8 million and Saudi Riyals 159.2 million, respectively) have been excluded from trade and other receivables and trade and other payables, respectively.

**33 Dividends**

The Company's Board of Directors, in their meeting held on 12 April 2023, resolved to distribute cash dividends of Saudi Riyal 2.0 per share, amounting to Saudi Riyal 160.0 million, for the second half of the year ended 31 December 2022 (2021: Saudi Riyals 150.0 million for the second half of the year ended 31 December 2021) which was fully paid during the year ended 31 December 2023.

The Company's Board of Directors, in their meeting held on 30 July 2023, resolved to distribute cash dividends of Saudi Riyal 1.5 per share, amounting to Saudi Riyal 120.0 million, for the first half of the year ended 31 December 2023. These dividends were fully paid during the year ended 31 December 2023.

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

**34 Contingencies and commitments**

- (i) At 31 December 2023, the Group was contingently liable for bank guarantees and letters of credit issued in the normal course of business amounting to Saudi Riyals 691.8 million (2022: Saudi Riyals 1,031.1 million).
- (ii) As at 31 December 2023 and 2022, there were no significant capital expenditure or other commitments.