

UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

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INDEPENDENT AUDITOR'S REPORT

The Shareholders of
United Electronics Company
(A Saudi Joint Stock Company)
Al-Khobar, Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of United Electronics Company, a Saudi Joint Stock Company (the "Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

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 year. 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. For each matter listed below, our description on how our audit have addressed this matter is set below:

INDEPENDENT AUDITOR'S REPORT - *Continued*

Key Audit Matters - *Continued*

Key Audit Matter	How our audit addressed the key audit matter
<p>1- Revenue Recognition and Information Technology (IT) systems</p> <p>As of December 31, 2020, the Group had recognized revenue of SR 5,962 million (2019: SR 5,135 million).</p> <p>We consider revenue a key audit matter being the key business element for the operations of the Group. Additionally, a significant part of the Group's revenue is heavily reliant on IT systems with automated processes and controls over the capture, storage, extraction, and integration of information. A fundamental component of these processes and controls is to ensure that appropriate user access, system integration, financial reporting and change management protocols and other related automated process controls exist, and are being adhered to. Hence, there is a risk that management may override these controls and processes as result of constant pressure on the Group to meet the expected sales targets which may result in misstatement of revenue.</p> <p>Refer to the note 3, to the consolidated financial statements for the accounting policy related to revenue recognition.</p>	<p>We performed the following procedures in relation to revenue recognition:</p> <ul style="list-style-type: none"> • Focused our audit on those IT systems and controls that are significant for the Group's sales processes. We involved IT specialists in our audit as audit procedures over IT systems and controls require specific expertise. • Assessed and tested the design and operating effectiveness of the Group's IT controls over sales, including those over user access, system integration, and change management, data reliability, data extraction, data interface, integration and financial reporting, in addition to other analytical procedures over the revenue processes. • Assessed the appropriateness of the group's revenue recognition policies in relation to the requirements of relevant accounting standards. • Assessed the design and operating effectiveness of controls associated with the revenue function including sales modules, automated and manual controls and other related aspects; • Performed detailed analytical review for the various elements of revenue / sales; • Validated the amortization of extended warranty revenue by reviewing warranty services contracts to ensure that revenue has been recorded correctly. • Validated the amortization of installment sales and Islamic financing revenue by reviewing installment sales and Islamic financing contracts to ensure that revenue has been recorded correctly. • Performed test of details in addition to test of controls where deemed necessary.

INDEPENDENT AUDITOR'S REPORT - *Continued*

Key Audit Matters - *Continued*

Key Audit Matter	How our audit addressed the key audit matter
2- Inventory valuation	
<p>As at December 31, 2020, the Group held SR 936 million of inventories (2019: SR 913 million) net of allowance for mark down and slow moving inventories.</p> <p>As described in "note 3", inventories are held at the lower of cost and net realizable value. Cost of inventories is determined using the weighted average cost method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale and mark down. The determination of whether the inventory will be realized for a value less than cost requires management to exercise judgment and apply assumptions that are continuously re-assessed. Management undertakes the following procedures for determining the level of mark-down and slow moving allowances required:</p> <ul style="list-style-type: none"> - Use inventory ageing reports together with historical trends to estimate the likely future salability of slow and older inventory; - Management applies percentages to the inventory to write down based on its aging at year end. The percentages are derived from historical levels of mark down; - Perform line-by-line analysis of remaining inventory to ensure it is stated at the lower of cost and net realizable value and a specific mark down is recognized if required. <p>The relative nature of Group's inventories and its susceptibility to market changes, customers' demands and technological changes may cause significant impact on the value of these products. Consequently, the book value of inventory may be higher than the net realizable value of inventory.</p> <p>We consider this matter as a key audit matter due to the level of significant judgement and assumptions used by management in determining the allowance for mark down and slow moving inventories.</p> <p>Refer to note 3 to the consolidated financial statements for the accounting policy for inventory.</p>	<p>We performed the following procedures over the valuation of inventory:</p> <ul style="list-style-type: none"> • Validated the consistency of the accounting policy adopted by management. • Re-performed the weighted average cost calculation for a sample of inventory items; • Tested that the ageing report used by management correctly aged inventory items by agreeing a sample of aged inventory items to the last recorded invoices; • Tested the net realizable value of inventory item to recent selling prices on a sample basis; • Evaluated the adopted policy for inventory valuations, mark down and slow moving; • Assessed the percentage mark down applied to old inventory with reference to historic inventory mark down recoveries on slow-moving inventory. • Re-performed the calculation of the inventory mark-down and slow moving allowance.

INDEPENDENT AUDITOR'S REPORT - *Continued*

Other Information Included in the Group's 2020 Annual Report

Management is responsible for the other information. The other information comprises the information included in the Group's annual report, other than the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

INDEPENDENT AUDITOR'S REPORT - Continued

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year 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.

Report on Other Legal and Regulatory Requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Group is not in compliance, in all material respects, with the applicable requirements of the Regulation for Companies in the Kingdom of Saudi Arabia and the Company's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

Al-Bassam & Co
 P.O. Box 4636
 Al Khobar 31952
 Kingdom of Saudi Arabia

Ibrahim A. Al Bassam
 License No. 337
 February 24, 2021
 Rajab 12, 1442H



UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

	Notes	December 31, 2020 SR	December 31, 2019 SR
ASSETS			
Non-current assets			
Property and equipment	5	452,228,590	477,429,746
Right of use	6	399,251,120	448,471,844
Intangible assets	7	56,883,510	56,053,297
Goodwill	8	528,692	6,367,451
Trade receivables and other assets – Noncurrent portion	9	1,374,148	1,472,172
Investment in installment sales receivables and Islamic financing contracts – Noncurrent portion	10	468,626,388	218,417,961
		<u>1,378,892,448</u>	<u>1,208,212,471</u>
Current assets			
Inventories	11	935,617,739	913,369,876
Trade receivables and other assets	9	95,899,488	145,864,113
Investment in installment sales receivables and Islamic financing contracts – Current portion	10	334,292,730	264,583,270
Cash and cash equivalents	12	184,762,989	102,971,989
		<u>1,550,572,946</u>	<u>1,426,789,248</u>
TOTAL ASSETS		<u>2,929,465,394</u>	<u>2,635,001,719</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	1,13	600,000,000	500,000,000
Statutory reserve	14	29,797,645	41,783,373
Other reserves		7,487,838	8,562,248
Retained earnings		212,593,893	129,565,441
Treasury shares	13,30	(24,000,000)	(20,000,000)
		<u>825,879,376</u>	<u>659,911,062</u>
Liabilities			
Non-current liabilities			
Deferred revenue from extended warranty program – Noncurrent portion	16	93,576,444	76,924,519
Lease liability – Noncurrent portion	17	464,609,547	507,331,165
Borrowings – Noncurrent portion	15	183,416,667	-
Deferred tax liabilities		1,242,635	1,683,969
End of service benefits	18	74,880,088	59,900,995
Other liabilities		19,427	3,854,086
		<u>817,744,808</u>	<u>649,694,734</u>
Current liabilities			
Trade payables and other liabilities	19	972,462,374	808,481,501
Deferred revenue from extended warranty program – Current portion	16	66,706,136	58,363,381
Lease liability – Current portion	17	71,350,033	47,074,296
Borrowings – Current portion	15	156,583,333	400,000,000
Zakat and income tax provision	20	18,739,334	11,476,745
		<u>1,285,841,210</u>	<u>1,325,395,923</u>
Total liabilities		<u>2,103,586,018</u>	<u>1,975,090,657</u>
TOTAL EQUITY AND LIABILITIES		<u>2,929,465,394</u>	<u>2,635,001,719</u>

The consolidated financial statements were approved and authorized for issue by the board of directors, on behalf of the shareholders and were signed on their behalf on February 21, 2021.

Chief Financial Officer

Chief Executive Officer

Chairman

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

UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Notes	For the year ended	
		December 31,	December 31,
		2020	2019
		SR	SR
Revenue, net	21,22,28	5,962,314,503	5,134,603,516
Cost of revenue	28	(4,923,015,173)	(4,233,420,483)
Gross profit		1,039,299,330	901,183,033
Selling, marketing and distribution expenses	23,28	(535,301,832)	(509,190,629)
General and administrative expenses	24,28	(154,862,703)	(143,221,986)
Other expenses	25	(26,298,819)	(3,194,943)
Other income	26	24,563,790	30,512,025
Finance charges	27	(49,581,274)	(57,033,545)
Net profit before zakat		297,818,492	219,053,955
Zakat and income tax	20	(18,117,102)	(12,394,387)
Deferred tax income / (expense)		441,334	(1,045,276)
Net profit for the year		280,142,724	205,614,292
OTHER COMPREHENSIVE INCOME			
<i>Items that may not be reclassified subsequently to profit and loss :</i>			
Re-measurement loss of end of service benefits	18	(8,437,158)	(1,035,130)
<i>Item that may be reclassified subsequently to statement of profit or loss:</i>			
Exchange differences on translation of foreign operations		(138,899)	96,966
Total other comprehensive loss for the year		(8,576,057)	(938,164)
Total comprehensive income for the year		271,566,667	204,676,128
Earnings per share attributable to shareholders of the Group:			
Basic earnings per share (Saudi Riyal per share)	29	4.86	3.57
Diluted earnings per share (Saudi Riyal per share)	29	4.67	3.43

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Chief Financial Officer

Chief Executive Officer

Chairman

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UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Note	Other Reserves						Total Equity SR
		Share Capital SR	Statutory reserve SR	Share based payment reserves SR	Foreign currency translation reserve SR	Actuarial reserve SR	Total other reserves SR	
Balance as at January 1, 2019 (Audited)		500,000,000	21,221,944	1,600,000	(108,461)	2,008,873	3,500,412	645,583,403
Adjustment on adoption of IFRS 16		-	-	-	-	-	-	(83,848,469)
Balance as at January 1, 2019 (Adjusted)		500,000,000	21,221,944	1,600,000	(108,461)	2,008,873	3,500,412	561,734,934
Net profit for the year		-	-	-	-	-	-	205,614,292
Other comprehensive income (loss) for the year		-	-	-	96,966	(1,035,130)	(938,164)	(938,164)
Transfer to statutory reserve		-	20,561,429	-	-	-	-	-
Dividends distributed	32	-	-	-	-	-	-	(112,500,000)
Share based payment expense	30	-	-	6,000,000	-	-	6,000,000	6,000,000
Balance as at December 31, 2019		500,000,000	41,783,373	7,600,000	(11,495)	973,743	8,562,248	659,911,062
Balance as at January 1, 2020		500,000,000	41,783,373	7,600,000	(11,495)	973,743	8,562,248	659,911,062
Net profit for the year		-	-	-	-	-	-	280,142,724
Other comprehensive loss for the year		-	-	-	(138,899)	(8,437,158)	(8,576,057)	(8,576,057)
Transfer to statutory reserve		-	28,014,272	-	-	-	-	-
Reclassification of dividend declared on treasury shares		-	-	-	-	-	-	-
Issuance of bonus share	1	100,000,000	(40,000,000)	-	-	-	-	9,400,000
Dividend distributed	32	-	-	-	-	-	-	(56,000,000)
Share based payment expense	30	-	-	7,501,647	-	-	7,501,647	(122,500,000)
Balance as at December 31, 2020		600,000,000	29,797,645	15,101,647	(150,394)	(7,463,415)	7,487,838	825,879,376

The consolidated financial statements were approved and authorized for issue by the board of directors, on behalf of the shareholders and were signed on their behalf on February 21, 2021.

Chief Financial Officer

Chief Executive Officer

Chairman

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

UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

	December 31, 2020 SR	December 31, 2019 SR
<u>Cash flows from operating activities:</u>		
Net profit for the year	280,142,724	205,614,292
<i>Adjustments for:</i>		
Depreciation of property and equipment	42,921,549	42,637,345
Amortization of intangible assets	13,146,948	8,437,668
Loss from disposal of property and equipment	35,155	10,384
Property and equipment written off	7,316,418	-
Intangible assets written off	121,161	-
Depreciation of right of use	52,325,236	48,618,467
Reversal of impairment allowance for factorized installment sales	(7,862,344)	-
Discount on lease rent	(7,475,188)	-
Deferred revenue from extended warranty program	24,994,680	15,816,284
Finance charges	49,581,274	57,033,545
Allowance for impairment recognized on Investment in installment sales receivables and Islamic financing contracts	5,000,901	12,472,926
Allowance for impairment recognized against inventories	12,197,263	8,293,656
Zakat and income tax	18,117,102	12,394,387
End of service benefits	12,331,469	11,848,531
Gain on factorization of installment sales receivables, net	-	(17,471,075)
Share based payment expense	7,501,647	6,000,000
Deferred tax (income) expense	(441,334)	1,045,276
	509,954,661	412,751,686
<u>Changes in:</u>		
Trade receivables and other assets	50,062,649	(49,531,707)
Investment in installment sales receivables and Islamic financing	(324,918,788)	(275,775,543)
Inventories	(34,445,126)	(130,172,841)
Trade payables and other liabilities	170,484,384	146,063,037
<u>Cash generated from operations</u>	371,137,780	103,334,632
End of service benefits paid	(5,789,534)	(9,973,882)
Finance charges paid	(9,021,783)	(15,047,750)
Zakat and income tax paid	(10,854,513)	(8,818,015)
Net cash generated from operating activities	345,471,950	69,494,985
<u>Cash flows from investing activities</u>		
Additions to property and equipment	(26,790,362)	(78,199,037)
Proceeds from disposal of property and equipment	57,740	213,201
Additions to intangible assets	(9,074,733)	(8,423,552)
Investment in a subsidiary	-	(5,000,000)
Net cash used in investing activities	(35,807,355)	(91,409,388)
<u>Cash flows from financing activities:</u>		
Drawdown of Borrowings	2,592,000,000	2,575,200,000
Repayment of Borrowings	(2,652,000,000)	(2,635,200,000)
Dividend paid	(122,500,000)	(112,500,000)
Cash received on dividend from treasury shares	9,400,000	-
Repayment of lease liability	(54,634,696)	(74,672,731)
Cash received from factorization of installment sales receivables, net	-	160,024,828
Net cash used in financing activities	(227,734,696)	(87,147,903)

UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS – (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2020

	December 31, 2020	December 31, 2019
	SR	SR
Net change in cash and cash equivalents	81,929,899	(109,062,306)
Effects of exchange differences on translation of foreign operations	(138,899)	96,966
Cash acquired on acquisition of a subsidiary	-	731,170
Cash and cash equivalent at the beginning of the year	102,971,989	211,206,159
Cash and cash equivalents at end of the year	184,762,989	102,971,989
Non-cash transaction :		
Change in goodwill valuation and intangible assets	5,838,759	-
Addition in right of use / lease liability	3,104,512	62,354,529
Intangible assets written off	1,382,386	-
Property and equipment written off	1,093,440	1,373,376
Transfer of intangible assets from Capital work in progress	567,216	14,038,009
IFRS 16 – Lease liability	-	524,302,868
IFRS 16 – Right of use	-	437,477,458
Impact of adoption of IFRS 16 on equity	-	83,848,469
IFRS 16 - Transfer of operating lease liability	-	18,717,603
IFRS 16 - Transfer of prepayments related to lease	-	18,267,832
Adjustment in right of use with trade payables	-	2,741,676
IFRS 16 - Sales and lease back adjustment	-	1,980,775
IFRS 16 - Transfer of finance lease liability	-	546,395
Property and equipment acquired on finance lease	-	435,000
<u>Additions on acquisition of a subsidiary</u>	-	-
Trade payables and other liabilities	-	2,034,233
End of service indemnities	-	1,175,255
Trade receivables and other assets	-	903,769
Intangible assets	-	114,596
Property and equipment	-	92,502

The consolidated financial statements were approved and authorized for issue by the board of directors, on behalf of the shareholders and were signed on their behalf on February 21, 2021.

Chief Financial Officer

Chief Executive Officer

Chairman

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

UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

United Electronics Company (the “Company”) is a Saudi joint stock Company initially registered in Riyadh under commercial registration number 1010175357 dated 19 Muharram 1423H (corresponding to April 1, 2002). In 2004, the Company’s registered office was transferred from Riyadh to Al Khobar and, accordingly, the commercial Registration number was changed to 2051029841 dated 10 Jumada II, 1425H (corresponding to July 27, 2004). The shares of the company were listed on the Saudi Stock Exchange “Tadawul” on December 24, 2011.

The Company’s principal activities are the wholesale and retail trade in electric appliances, electronic gadgets, computers and their spare parts and accessories, furniture, office equipment and tools, medical supplies, maintenance and repair services, establishment of restaurants third-party marketing, and drones.

The Company’s share capital as at December 31, 2020 amounted to SR 600 million (2019: SR 500 million) consisting of 60 million (2019: 50 million) shares of SR 10 each.

The Board of Directors of the Company, on March 5, 2020, recommended to the Extra Ordinary General Assembly of the Company for the increase in its share capital from SR 500 million to SR 600 million by granting bonus shares to the Company's existing shareholders. On May 05, 2020 the shareholders of the Company in their annual general meeting approved the recommendations of the board of directors for increase in share capital and accordingly, the share capital was increased from SR 500 million to SR 600 million, and number of shares increased from 50 million shares to 60 million shares.

On March 18, 2020, the Board of Directors of the Company announced intention to purchase 100,000 shares of the Company as part of the employees’ share program, subject to the approval of the Extra Ordinary General Assembly. The shareholders of the Company approved the recommendation in their annual general meeting dated May 05, 2020.

The address of the Company’s head office is United Electronics Company – P.O. Box 76688 Al Khobar 31952, Kingdom of Saudi Arabia.

1.1. Structure of the group

The consolidated financial statements include the financial statements of the company and following subsidiaries:

<u>Name of consolidated subsidiaries</u>	<u>Effective ownership</u>	
	<u>2020</u>	<u>2019</u>
1- United Electronics Company Extra S.P.C., a Company registered in Bahrain	100%	100%
2- United Electronics Company Extra L.L.C., a Company registered in Oman	100%	100%
3- United Company for Maintenance Services Limited, a Company registered in Kingdom of Saudi Arabia	100%	100%
4- United Company for Financial Services. a Company registered in Kingdom of Saudi Arabia	100%	100%
5- Procco Financial Services W.L.L. registered in Kingdom of Bahrain	100%	100%

The above mentioned wholly owned subsidiaries of the Company, for which the assets, liabilities and result of operations of these subsidiaries have been included in the accompanying consolidated financial statements.

- 1- United Electronics Company-Extra S.P.C., is registered in Bahrain on 15 Dhul-Qa’da 1432H (corresponding to October 13, 2011). The principal activities of this subsidiary are importing, exporting and trading of electrical and electronics devices and their spare parts, computers and accessories, selling video and audio media materials, importing and exporting computer software and hardware, importing and exporting electronic games, providing maintenance for electric devices in addition to management and development of personal properties.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

1.1 Structure of the group (Continued)

- 2- United Electronics Company-Extra L.L.C., is registered in Oman on 15 Jumada I 1433H (corresponding to April 7, 2012), the principal activities of this subsidiary is retail trading of computer, non-customized software, household appliances (radio, television, refrigerators, crockery etc.), toys, games, satellites, and phones.

On May 14, 2020, corresponding to Ramadan 21 1441, the shareholders of the subsidiary resolved to increase the share capital of the subsidiary Company from Omani Riyals 100,000 to Omani Riyals 250,000 by issuance of 15,000 shares of Omani Riyals 10 each.

- 3- United Company for Maintenance Services Limited, is Saudi limited liability company incorporated on 10 Rajab 1431H (corresponding to June 22, 2010). The principal activities of this subsidiary are maintenance and repair and providing warranty for electronics, digital and electrical devices, home appliances and computers and wholesale trading of spare parts in electrical and digital devices, photocopy and fax machines, telephones, cell phones, video and electric games, digital pocket assistants, printers and computer-related devices.

- 4- United Company for Financials Services ("the Company") is a Saudi Closed Joint Stock Company established under the Regulations for Companies in the Kingdom of Saudi Arabia having the Commercial Registration No. 2051224103 issued in Al-Khobar on Jumada Al Awwal 15,1440 H (corresponding to January 21, 2019). The principal activities of this subsidiary are to exercise consumer finance in the Kingdom of Saudi Arabia in accordance with implementation regulations of the finance lease law and its Sharia compliant.

On September 7, 2020 corresponding to Muharram 19, 1442, the shareholders of the subsidiary in their Extra Ordinary General Meeting resolved to increase the share capital of the subsidiary Company from SR 150 million to SR 350 million by issuance of 20 million shares of SR 10 each.

- 5- During the financial year ended December 31, 2019, the Group invested SR 5 million to acquire a Company under the name "Procco Financial Services W.L.L". The principal activities of this subsidiary is to provide technical services to financial institutions and other companies. The Group had previously recognized Goodwill of SR 6,367,451 as a result of this acquisition. During the year, the Group completed its purchase price allocation as allowed by IFRS 3 – Business combinations that resulted in increase of net assets and decrease in goodwill by SR 5,838,759.

The Company and its subsidiaries are together referred as "the Group".

As at December 31, 2020, the Group had a total of 50 branches (December 31, 2019: 50 branches) out of which 45 operational branches are in the Kingdom of Saudi Arabia (December 31, 2019: 45 branches).

2. BASIS OF PREPARATION

2.1 Basis of accounting

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

2. BASIS OF PREPARATION (Continued)

2.2 Accounting conventions and use of estimates

The accompanying consolidated financial statements have been prepared on the historical cost convention, except as disclosed in the applicable accounting policies in note 3 of the accompanying consolidated financial statements.

The preparation of consolidated financial statements required management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts in the consolidated financial statements. These areas that are significant to the consolidated financial statements are disclosed in note 4.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries detailed in note 1. Control is achieved when the Company:

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

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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

Consolidated and each component of other comprehensive income are attributed to the owners of the Company. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.3.1 Changes in the Group's ownership interests in existing subsidiaries

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

2. BASIS OF PREPARATION (Continued)

2.3.1 Changes in the Group's ownership interests in existing subsidiaries (Continued)

When the Group loses control of a subsidiary, a gain or loss is recognized in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary net of carrying amount of non-controlling interests at disposal date. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified Consolidated statement of profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs).

2.3.2 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquirer's identifiable net assets. Acquisition costs incurred are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognized in the consolidated statement of profit or loss and other comprehensive income.

Goodwill represents the excess cost of investments over the fair value of the net assets acquired in a business combination. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Goodwill is tested annually for impairment and is carried at cost net of accumulated impairment losses. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Negative goodwill represents the excess of the fair value of the net assets acquired and the cost of investments in a business combination. Negative goodwill is recognized in the consolidated statement of profit or loss and other comprehensive income.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed-off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed-off in this circumstance is measured based on the relative values of the operation disposed-off and the portion of the cash-generating unit retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated statement of profit or loss and other comprehensive income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

2. BASIS OF PREPARATION (Continued)

2.4 New standards, amendments to standards and interpretations

Amendments

A number of new amendments to standards, enlisted below, are effective this year but they do not have a material effect on the Group's Consolidated Financial Statements.

2.4.1 Standards issued and applied effective January 1, 2020

Amendments to standard	Description	Effective for annual years beginning on or after
IAS 1 and IAS 8	Definition of material	January 1, 2020
IFRS 3	Definition of business	January 1, 2020
Revised Conceptual Framework for Financial Reporting	Amendments to references to References to Conceptual Framework in IFRS Standards and updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.	January 1, 2020
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	January 1, 2020
IFRS 16	COVID-19-Related Rent Concessions	June 1, 2020

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

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

Amendments to standard	Description	Effective for annual years beginning on or after
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	January 1, 2021
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
IFRS 16, IFRS 9, IAS 41 and IFRS 1	Annual Improvements to IFRS Standards 2018–2020	January 1, 2022
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
IFRS 3	Reference to the Conceptual Framework	January 1, 2022
IFRS 17	Insurance Contracts	January 1, 2023
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
Amendment to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and Associate or Joint Venture	N/A

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies applied by the Group:

3.1 Revenue recognition

Revenue is recognized as control of an asset is passed, either over time or at a point in time. Control of an asset is defined as the ability to direct the use of and substantially all the benefit from an asset.

3.1.1 Sale of goods

Revenue is recognized upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which entity expects to be entitled in exchange for those goods or services. Revenue is recognized when the following steps are met:

- i. A sale contract is identified with a customer. Such contract does not have to be written to be considered identified.
- ii. The existence of a performance obligation.
- iii. A transaction price is determined.
- iv. Allocation of the transaction price to the performance obligation.
- v. Recognition of revenue upon satisfaction of performance obligation.

In assessing these steps, management considers the followings:

- Approval of both parties (buyer and seller) on the sale with each party rights in relation to these goods and services to be transferred under the sale. Payment terms are also considered to ensure the contract has a commercial substance and it is probable that the consideration under the sale of these goods and services will be collected.
- Identification of the distinct goods or service promised under the contract. These distinct goods and service, are referred to as performance obligation. In considering whether these goods and services are distinct, management assess whether these goods or services can provide benefit on its own and the Group's promise to transfer these goods and services to the customer are separately identified. All the Group sales are considered to be distinct.
- The consideration to which the Group expects to be entitled in exchange for transfer of these goods and services. All the Group's sale has fixed consideration.
- Allocation of the transaction price to goods or services under the contract.
- Satisfaction of performance obligation.

3.1.2 Revenue from additional service program

The Group provides additional service program to its customers, where the customer has the option to purchase the warranty. The contract is separately priced or negotiated as a distinct service, which considered as identifiable revenue component. The Group accounts for the warranty as a separate performance obligation service on the base of the length of the warranty coverage period and the nature of the tasks that the entity promises to perform. The Group defers the consideration received as a liability, which is later amortized and revenue is accordingly recognized over the service agreement period.

3.1.3 Investments in Installment sales receivables and Islamic financing contracts

Installment sales receivables

In determining the transaction price, the group adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed with the customer provides the customer or the group with a significant benefit of financing the transferred goods or services to the customer. In those circumstances, which is the case for instalment sales which is normally over more than one-year period, the agreement with the customer contains a significant financing component. The Group adjusts the promised amount of consideration for the significant financing component to recognize revenue at an amount that reflects the cash price goods (i.e. the cash selling price).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Revenue recognition (Continued)

3.1.3 Investments in Installment sales receivables and Islamic financing contracts (Continued)

Installment sales receivables (Continued)

The Group considers all relevant facts and circumstances in assessing whether a contract contains a financing component and whether that financing component is significant to the contract, which include the following:

- A- the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services; and
- B- the combined effect of both of the following:
 - (i) the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services; and
 - (ii) the prevailing interest rates in the relevant market.

The Group uses the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. That rate used reflects the credit characteristics of the party receiving financing in the contract, as well as any collaterals including goods transferred in the contract to the customer. The Group determines that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash for the goods or services when they transfer to the customer. After contract inception, The Group does not update the discount rate for changes in interest rates or other circumstances (except. changes in the assessment of the customer's credit risk).

Investment in Islamic financing contracts

Income from financing contracts is recognized in the consolidated statement of profit or loss using the effective yield method, using the applicable Effective Profit Rate ("EPR"), on the outstanding balance over the term of the contract.

The calculation of EPR includes transaction costs and origination fees income received that represent an integral part of the EPR. Transaction costs include incremental costs that are directly attributable to the acquisition of the financial assets.

Origination fees is charged in respect of processing of Islamic financing contracts.

3.1.4 Sales returns

It is the group's policy to sell its products to the end customer with a right of return within 7 days. Therefore, a refund liability and a right to the returned goods are recognized based on historical experience of the group.

3.2 Expenses

Distribution expenses principally comprise of costs incurred in the distribution and delivery of the Group's products.

Marketing expenses principally comprise of costs incurred in marketing and advertising the Group's products and services. All expenses, other than cost of revenues, selling, marketing and distribution expenses, are classified as general and administrative expenses.

Allocations between selling, marketing and distribution expenses and general and administrative expenses and cost of revenues, when required, are made on a consistent basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Earnings per share

The Group presents basic and diluted earnings per share data for its profit. Basic earnings per share 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 own shares held. For the diluted earnings per share, it is calculated by adjusting the weighted average number of ordinary shares in issue assuming the conversion of all dilutive potential ordinary shares, which includes the treasury shares issued to establish the employees' stock program and conversion of treasury shares into ordinary shares upon entitlement.

3.4 Foreign currency translations

3.4.1 Presentation currency

The accompanying consolidated financial statements are presented in Saudi Riyals which is the functional currency and presentation currency of the parent company. Items included in the consolidated financial statements of each of the group entities are measured using the currency of the primary economic environment in which the group entity operates (the functional currency). The group entities primarily operate in Bahrain and Oman.

3.4.2 Transaction and balances

Transactions denominated in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of each reporting period are translated at the rates prevailing at that date. Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of transaction. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences on monetary items are recognized in the consolidated statement of profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to the consolidated statement of profit or loss on repayment of the monetary items.

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

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

3.4.3 Group entities

The results and financial position of foreign subsidiaries having reporting currencies other than the presentation currency of the parent company, are translated into functional currency as follows:

- (i) Assets and liabilities for each reporting period presented are translated at the closing exchange rates prevailing at the end of reporting period.
- (ii) Income and expenses from each reporting period are translated at average exchange rates and;
- (iii) Components of the equity accounts are translated at the exchange rates in effect of the dates of the related items originated.
- (iv) Cumulative adjustments resulting from the translations are reported in other comprehensive income and are reported in a separate component of equity as "Currency translation differences".

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Borrowing cost

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

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

3.6 Employees benefits

3.6.1 End of services benefits

The end-of-service benefits provision is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting year. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in consolidated statement of profit or loss as past service costs. Interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability.

Defined benefit costs are categorized as follows:

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

The Group presents the first two components of defined benefit costs in the consolidated statement of profit or loss in the line items 'Selling, marketing, and distribution expenses and general and administrative Expenses'.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income. They are included in other reserves in the statement of changes in equity and in the statement of financial position.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

3.6.2 Short-term and other long-term employees' benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employees' benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service. Liabilities recognized in respect of other long-term employees' benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

3.7 Zakat and income tax

3.7.1 Zakat

The company is subject to the regulations of the General Authority of Zakat & Tax ("GAZT") in the kingdom of Saudi Arabia. Moreover, the subsidiaries are subject to the relevant laws relating to income tax in the countries where they conduct their activities. Zakat is calculated on accrual basis. Zakat is calculated on the higher of zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Zakat and income tax (Continue)

3.7.2 Current income tax

The Group applies IAS 12 Income Taxes in accounting for taxes on income. Income tax is applicable to one of the subsidiary only. The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before zakat and income tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible as per applicable tax law. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.7.3 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with accumulated tax losses only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.8 Segmental reporting

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

Segment results that are reported to the CEO and BOD and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Operating segments are reported in a manner consistent with the internal reporting provided to CEO and BOD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Property and equipment

Property and equipment are stated at their cost less accumulated depreciation and accumulated impairment losses.

Properties in the course of construction are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs includes professional fees and, for qualifying assets, borrowing costs which are capitalized in accordance with the Group's accounting policy.

Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property and equipment (except freehold land and building under construction) are depreciated over its useful lives using the straight line method.

The estimated useful lives of assets are as follows:

<u>Item</u>	<u>Estimated useful lives/Years</u>
Building and leasehold improvements	10-33 years
Furniture, fixtures and office equipment	4-10 years
Motor vehicles	5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in statement of profit or loss.

Capital work in progress represents the accumulated costs incurred by the group in relation to the construction of its building and structures in the development stage. Cost incurred are initially charged to the capital work in progress then these costs are transferred to property and equipment when the construction of these facilities are completed. Finance charges on borrowings attributable to the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

3.10 Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any premeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and restoration costs. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over underlying asset's useful life. Right-of-use assets are subject to impairment.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the year on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Incremental rate is the rate that the individual lessee would 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. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is premeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease payments are allocated between principal and finance charges. The finance cost is charged to profit and loss over the lease period so as to produce constant periodic rate of interest on the remaining balance of the liability of each year.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of rented properties (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

3.12 Intangible assets

Intangible assets comprise of mainly Enterprise Resource Planning (ERP) and E-Commerce software. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives of 10 and 5 years respectively. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

De-recognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the consolidated statement of profit or loss when the asset is derecognized.

3.13 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Impairment of non-financial assets (Continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in statement of profit or loss and other comprehensive income.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in statement of profit or loss and other comprehensive income.

3.14 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories is determined on a weighted average cost basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale and mark down. A provision is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified during the inventory count. Markdown provision and provision for slow moving and obsolete inventories is assessed periodically by management for each inventory category as part of its ongoing financial reporting review.

3.15 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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

3.16 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with the bank, all of which have maturities of 90 days or less and are available for use by the Group unless otherwise stated.

3.17 Financial Instruments

a) Classification of financial assets

On initial recognition, a financial asset is classified and measured at Amortized Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). However, the Group as of the reporting date, only holds financial assets measured at amortized cost.

Financial Asset at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Financial Instruments (Continued)

Business model assessment

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

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

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

Assessments whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

Financial Asset at fair value through OCI (FVOCI)

Debt Instruments

A debt instrument is measured at FVOCI only if it meets both of the following conditions and it is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principle and the interest on the principle amount outstanding.

Equity Instruments

On the initial recognition, for an equity investment that is not held for trading, the Group may irrecoverably elect to present subsequent changes in fair value in OCI. This election is made on an investment by investment basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Financial Instruments (Continued)

Financial Asset at fair value through profit or loss (FVTPL)

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the Group after the Group changes its business model for managing financial assets.

Financial assets that are held for trading, if any, and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss (FVTPL) because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

b) Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Interest Rate (EIR).

De-recognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

c) Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its installment sale receivables carried at amortized cost.

The Group assess impairment "based on three stages model" categorization as follows:

▪ **Stage 1 - Performing**

Includes installment sale receivables 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-months ECL are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the expected credit losses 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 installment sale receivables 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. For these asset, lifetime ECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of installment receivables. Expected credit losses are the weighted average credit losses with the Probability of Default (PD) as the weight.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Financial Instruments (Continued)

▪ **Stage 3 - Non-performing**

Include financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

Significant increase in credit risk (SICR):

IFRS9 requires management, when determining whether the credit risk on a financial instrument has increased significantly, to consider reasonable and supportable information available in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the consolidated financial statement.

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are calculated by cumulative effect of Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- “Default”, The Group considers a financial asset to be in default when: (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse; or (ii) the borrower is past due more than 30 days on any material credit obligation to the Group.
- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss Given Default (LGD) represents the Group’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL allowance is affected by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The Group has identified and documented key drivers of credit risk and credit losses and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2020 included the key indicator of Oil Price OPEC.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Financial Instruments (Continued)

Write off

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

For trade receivables and other assets, which are considered as low risk by Group with an average credit period of 30 days, the Group uses the simplified approach whereby the expected credit losses are based on the credit loss expected over the lives of these assets. The Group has prepared a provision matrix based on its previous experience adjusted to account for receivables future outlook and the respective economic conditions.

Installment sales receivables

The measurement of the expected credit loss allowance for installment sales receivable measured at amortized cost, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

3.18 Investment in islamic financing contracts

3.18.1 Tawaruq contract receivables

Tawaruq is an agreement whereby the Group sells to a customer an asset, 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 Tawaruq sale contracts include the total sale payments on the Tawaruq agreement (Tawaruq sale contract receivable). The difference between the Tawaruq sale contracts receivable and the cost of the sold asset, is recorded as unearned Tawaruq profit and for presentation purposes, is deducted from the gross amounts due under the Tawaruq sale contracts receivable.

3.18.2 Murabaha contract receivables

Murabaha is an agreement whereby the Group sells to a customer an asset, which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Murabaha sale contracts include the total of future sale payments on the Murabaha agreement (Murabaha sale contract receivable). 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 Murabaha sale contracts receivable.

3.19 Treasury shares

Own equity instruments (treasury shares), for discharging obligations under the Employees' Stock Option Program ("ESOP"), are recognized at cost and presented as a deduction from equity and are adjusted for any transaction costs, dividends and gains or losses on sale of such shares.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Share-based scheme (ESOP)

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 Group's shares ("Option") at a predetermined price.

The cost of ESOP is recognised as an expense in the Consolidated Statement of Profit or Loss, together with a corresponding increase in other reserves, in equity, over the period during which the service conditions are fulfilled.

Accordingly, the Other Reserves (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 recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employees are not met.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

4.1 Impairment of inventories

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete or subject to technological changes, an estimate is made of their net realizable value. Factors considered in determination of mark downs include current and anticipated demand, customer preferences and age of inventories as well as 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 provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

4.2 Impairment of property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use. No impairment loss had been recognized as at December 31, 2020.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION
UNCERTAINTY (Continued)**

4.3 Useful lives and residual values of property and equipment and intangible assets

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

4.4 Employees' end of service benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using various assumptions that may differ from actual developments in future. The assumptions used include the discount rate, future salary increases, mortality rates and future pension increases. Changes in these assumptions will impact the carrying amount of the pension obligation.

The Group determines the appropriate discount rate at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the expected term of the related end of service benefits obligation.

Refer to note 18 for further disclosure of the key sources of estimation uncertainty relating to the retirement benefit obligation.

4.5 Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and unexpected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

4.6 Leases

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity specific estimates.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

5. PROPERTY AND EQUIPMENT

The movement of the property and equipment for the year ended December 31, 2020 is as follows:

	Land	Buildings and leasehold improvement	Furniture, fixtures and office equipment	Motor vehicles	Capital work in progress	Total
	SR	SR	SR	SR	SR	SR
<u>Cost:</u>						
Balance at January 1, 2020	110,889,060	396,668,867	285,492,809	24,955,290	23,488,295	841,494,321
Additions	-	7,995,400	12,128,119	208,347	6,458,496	26,790,362
Transfers of capital work in progress*	-	8,019,954	3,870,431	-	(12,457,601)	(567,216)
Written off	-	(4,629,401)	(5,275,419)	(133,164)	-	(10,037,984)
Disposals	-	(1,155,892)	(126,096)	(2,506,188)	-	(3,788,176)
Balance at December 31, 2020	<u>110,889,060</u>	<u>406,898,928</u>	<u>296,089,844</u>	<u>22,524,285</u>	<u>17,489,190</u>	<u>853,891,307</u>
<u>Accumulated Depreciation:</u>						
Balance at January 1, 2020	-	126,830,650	218,170,554	19,063,371	-	364,064,575
Depreciation charge for the year	-	18,998,943	22,967,726	954,880	-	42,921,549
Written off	-	(430,963)	(2,173,087)	(117,516)	-	(2,721,566)
Disposals	-	(328,149)	(142,008)	(2,131,684)	-	(2,601,841)
Balance at December 31, 2020	<u>-</u>	<u>145,070,481</u>	<u>238,823,185</u>	<u>17,769,051</u>	<u>-</u>	<u>401,662,717</u>
<u>Net Book Value:</u>						
At December 31, 2020	<u>110,889,060</u>	<u>261,828,447</u>	<u>57,266,659</u>	<u>4,755,234</u>	<u>17,489,190</u>	<u>452,228,590</u>

* Transfers of capital work in progress to intangible assets includes the transfer of improvements in modules of existing ERP system amounting to SR 567,216.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

5. PROPERTY AND EQUIPMENT (Continued)

The movement of the property and equipment for the year ended December 31, 2019 is as follows:

	Land	Buildings and leasehold improvement	Furniture, fixtures and office equipment	Motor vehicles	Capital work in progress	Total
	SR	SR	SR	SR	SR	SR
<u>Cost:</u>						
Balance at January 1, 2019	110,889,060	359,376,186	244,912,311	24,516,995	28,108,830	767,803,382
Transferred on the acquisition of a subsidiary	-	1,292,419	12,001,435	-	-	13,293,854
Additions	-	13,392,142	27,321,331	1,011,224	36,909,340	78,634,037
Transfers of capital work in progress*	-	24,894,676	2,597,190	-	(41,529,875)	(14,038,009)
Disposals	-	(2,286,556)	(1,339,458)	(572,929)	-	(4,198,943)
Balance at December 31, 2019	110,889,060	396,668,867	285,492,809	24,955,290	23,488,295	841,494,321
<u>Accumulated Depreciation:</u>						
Balance at January 1, 2019	-	106,088,497	186,646,299	18,093,064	-	310,827,860
Transferred on the acquisition of a subsidiary	-	1,292,419	11,908,933	-	-	13,201,352
Depreciation charge for the year	-	20,358,048	20,853,416	1,425,881	-	42,637,345
Disposals	-	(908,314)	(1,238,094)	(455,574)	-	(2,601,982)
Balance at December 31, 2019	-	126,830,650	218,170,554	19,063,371	-	364,064,575
<u>Net Book Value:</u>						
At December 31, 2019	110,889,060	269,838,217	67,322,255	5,891,919	23,488,295	477,429,746

* Transfers of capital work in progress during the year includes transfer of e-commerce website and software licenses amounting 14.04 million to intangible assets.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

5. PROPERTY AND EQUIPMENT (Continued)

Depreciation for the year has been allocated as under:

	December 31, 2020 SR	December 31, 2019 SR
Selling, marketing and distribution expenses (Note 23)	38,106,664	39,274,951
General and administrative expenses (Note 24)	4,814,885	3,362,394
	42,921,549	42,637,345

6. RIGHT OF USE

The Group presents right of use for the stores, land, warehouses and office building separately from property and equipment.

Movement in right of use during the year ended December 31, 2020 is as follows:

	Store SR	Land SR	Warehouse SR	Office building SR	Total SR
Opening balance	108,628,356	293,810,528	46,032,960	-	448,471,844
New contracts added during the year	-	-	-	3,104,512	3,104,512
Depreciation charge for the year	(23,282,430)	(21,090,850)	(6,564,611)	(1,387,345)	(52,325,236)
Closing balance	85,345,926	272,719,678	39,468,349	1,717,167	399,251,120

Movement in right of use during year ended December 31, 2019 is as follows

	Store SR	Land SR	Warehouse SR	Total SR
Opening balance	-	-	-	-
Impact of adoption of IFRS 16	117,521,975	319,255,478	700,005	437,477,458
Opening balance (Restated)	117,521,975	319,255,478	700,005	437,477,458
New contracts added during the year	11,867,311	-	50,487,218	62,354,529
Depreciation charge for the year	(22,423,844)	(21,141,173)	(5,053,450)	(48,618,467)
Adjustment	1,662,914	(4,303,777)	(100,813)	(2,741,676)
Closing balance	108,628,356	293,810,528	46,032,960	448,471,844

Depreciation charge for the year has been allocated as under:

	December 31, 2020 SR	December 31, 2019 SR
Selling, marketing and distribution expenses (Note 23)	52,210,521	48,503,751
General and administrative expenses (Note 24)	114,715	114,716
	52,325,236	48,618,467

7. INTANGIBLE ASSETS

The movement of intangible assets is as follows:

	December 31, 2020 SR	December 31, 2019 SR
Cost	120,938,116	113,171,301
Accumulated amortization	(64,054,606)	(57,118,004)
Amortized value	56,883,510	56,053,297

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7. INTANGIBLE ASSETS (Continued)

	December 31, 2020 SR	December 31, 2019 SR
<u>Cost</u>		
Opening balance	113,171,301	78,942,087
Transferred on the acquisition of a subsidiary	-	11,767,653
Increase in valuation of intangible assets on fair value allocation to a subsidiary's assets (Note 8)	5,838,759	-
Additions	9,074,733	8,423,552
Write offs	(7,713,893)	-
Transferred from property and equipment	567,216	14,038,009
Closing balance	120,938,116	113,171,301
<u>Accumulated amortization</u>		
Opening balance	(57,118,004)	(37,027,279)
Transferred on the acquisition of a subsidiary	-	(11,653,057)
Write-offs	6,210,346	-
Amortization	(13,146,948)	(8,437,668)
Closing balance	(64,054,606)	(57,118,004)
Net book value	56,883,510	56,053,297

Amortization for the year has been allocated as under:

	December 31, 2020 SR	December 31, 2019 SR
Selling, marketing and distribution expenses (Note no. 23)	8,719,937	2,741,563
General and administrative expenses (Note no. 24)	4,427,011	5,696,105
	13,146,948	8,437,668

8. GOODWILL

The Group entered into an agreement on May 29, 2019, for the acquisition of Procco Financial Services W.L.L, for a total purchase price of SR 5 million. As a result of this business acquisition and control acquired through sale agreement, the Company consolidated newly acquired subsidiary with effect from May 29, 2019.

On initial assessment the Group recognized a goodwill amounting to SR 6.37 that represented the excess consideration paid over net assets acquired. During the year the Group completed the purchase price allocation, within 12 months of its acquisition, and reassessed the goodwill to be SR 528,692.

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9. TRADE RECEIVABLES AND OTHER ASSETS

Trade receivables and other assets comprise of the following:

	December 31, 2020	December 31, 2019
	SR	SR
Trade receivables	36,896,008	86,420,444
Less: allowance for impairment	(2,507,355)	(2,507,355)
Net trade receivables	34,388,653	83,913,089
Prepaid government and recruitment charges	9,128,987	7,404,391
Employees' receivables	8,166,353	7,152,336
Claim Receivable and refundable deposits	6,369,333	6,150,468
Prepaid rent	5,887,149	6,323,200
Advances to suppliers	4,837,915	5,165,608
Prepaid insurance	2,893,295	2,958,833
Due from related parties (Note 28)	2,407,024	2,879,216
Prepaid marketing and license fee	51,852	1,155,940
Other assets	23,157,701	24,247,830
Less: allowance for impairment	(14,626)	(14,626)
	97,273,636	147,336,285
Less: non-current portion		
Employees' receivable	(1,374,148)	(1,472,172)
Total non-current portion	(1,374,148)	(1,472,172)
Total current portion, net	95,899,488	145,864,113

Other assets include prepaid LC charges, governmental charges, HRDF program, and shop rentals receivables.

The ageing of trade receivables and related allowance for impairment of trade receivables are as follows:

	December 31, 2020	December 31, 2019
	SR	SR
Not past due	25,084,911	68,788,908
Past due 1-90 days	9,141,376	16,309,490
Past due 91-180 days	327,953	28,464
Above 180 days	2,341,768	1,293,582
Less : Allowance for impairment	(2,507,355)	(2,507,355)
	34,388,653	83,913,089

The average credit period on sales of goods is 30 days. No interest is charged on trade receivables. Before accepting any new customer, the Group has a credit facility policy set in place to assess the potential customer's credit quality and defines credit limits by customer. These procedures, are reviewed and updated on an ongoing basis. As of December 31, 2020, one of the group's major customer comprise 94 % of the net trade receivables balance (December 2019: two of major customers comprise 93.4% of the net trade receivables balance). There are no other customers who represent more than 3% of the total balance of trade receivables (December 31, 2019: 4%).

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10. INVESTMENT IN INSTALLMENT SALE RECEIVABLES AND ISLAMIC FINANCING CONTRACTS

	Note	December 31, 2020 SR	December 31, 2019 SR
Installment sales receivable, net	10.1	99,752,217	339,102,159
Investment in Islamic financing contracts, net	10.2	703,166,901	143,899,072
		802,919,118	483,001,231
Less: non-current portion		(468,626,388)	(218,417,961)
Current portion		334,292,730	264,583,270

10.1 Installment sales receivable, net

Details of installment sales receivable are as follows:

	December 31, 2020 SR	December 31, 2019 SR
Installment sales receivables	126,900,275	379,352,480
Less: allowance for impairment	(27,148,058)	(40,250,321)
Net installment sales receivable	99,752,217	339,102,159
Less: non-current portion	(20,304,545)	(116,931,600)
Current portion	79,447,672	222,170,559

The average credit installment granted is SR 10,000 at pre-determined rate.

As at December 31, 2020 and 2019, stage wise installment sales receivable balances and the respective ECL are as follows:

2020	Stage 1	Stage 2	Stage 3	Total
Installment sales receivables	61,602,578	9,929,982	55,367,715	126,900,275
Allowance for impairment	(531,921)	(1,133,501)	(25,482,636)	(27,148,058)
	61,070,657	8,796,481	29,885,079	99,752,217
2019	Stage 1	Stage 2	Stage 3	Total
Installment sales receivables	305,251,791	22,754,680	51,346,009	379,352,480
Allowance for impairment	(3,776,594)	(4,359,525)	(32,114,202)	(40,250,321)
	301,475,197	18,395,155	19,231,807	339,102,159

Movement in the allowance for impairment

	December 31, 2020 SR	December 31, 2019 SR
Opening balance	40,250,321	30,879,155
(Reversal) Impairment charge for the year	(12,971,837)	9,828,673
Utilized allowance	(130,426)	(457,507)
Closing balance	27,148,058	40,250,321

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10. INVESTMENT IN INSTALLMENT SALE RECEIVABLES AND ISLAMIC FINANCING CONTRACTS
(Continued)

10.2 Investment in Islamic financing contracts, net

Investment in financings contract comprised of investment in Tawaruq and Murabaha contracts as mentioned below:

	December 31, 2020		
	Current portion SR	Non-current portion SR	Allowance for credit loss SR
			Total SR
Tawaruq contracts receivables, net	108,063,640	357,847,119	(14,734,809)
Murabaha contracts receivables, net	154,611,129	103,262,004	(5,882,182)
	262,674,769	461,109,123	(20,616,991)

	December 31, 2019		
	Current portion SR	Non-current portion SR	Allowance for credit loss SR
			Total SR
Tawaruq contracts receivables, net	18,698,043	91,351,938	(1,312,502)
Murabaha contracts receivables, net	24,975,146	11,518,198	(1,331,751)
	43,673,189	102,870,136	(2,644,253)

Tawaruq contracts receivables, net

	December 31, 2020		
	Current portion SR	Non-current portion SR	Total SR
Tawaruq contracts receivables, gross	214,811,037	536,596,997	751,408,034
Less: deferred financing income	(106,216,596)	(177,861,044)	(284,077,640)
	108,594,441	358,735,953	467,330,394
Unearned origination fees	(1,437,582)	(2,407,250)	(3,844,832)
Deferred transaction costs	906,781	1,518,416	2,425,197
	108,063,640	357,847,119	465,910,759
Less: Allowance for credit loss	(4,212,358)	(10,522,451)	(14,734,809)
Tawaruq contracts receivables, net	103,851,282	347,324,668	451,175,950

	December 31, 2019		
	Current portion SR	Non-current portion SR	Total SR
Tawaruq contracts receivables, gross	44,698,384	137,984,759	182,683,143
Less: deferred financing income	(25,822,944)	(46,314,651)	(72,137,595)
	18,875,440	91,670,108	110,545,548
Unearned origination fees	(331,802)	(595,105)	(926,907)
Deferred transaction costs	154,405	276,935	431,340
	18,698,043	91,351,938	110,049,981
Less: Allowance for credit loss	(321,133)	(991,369)	(1,312,502)
Tawaruq contracts receivables, net	18,376,910	90,360,569	108,737,479

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10. INVESTMENT IN INSTALLMENT SALE RECEIVABLES AND ISLAMIC FINANCING CONTRACTS
(Continued)

10.2 Investment in islamic financing contracts, net (Continued)

Murabaha contracts receivables, net

	December 31, 2020		
	Current portion SR	Non-current portion SR	Total SR
Murabaha contracts receivables, gross	217,022,524	135,878,081	352,900,605
Less: deferred financing income	(63,539,084)	(33,205,405)	(96,744,489)
	153,483,440	102,672,676	256,156,116
Unearned origination fees	(1,219,153)	(637,127)	(1,856,280)
Deferred transaction costs	2,346,842	1,226,455	3,573,297
	154,611,129	103,262,004	257,873,133
Less: Allowance for credit loss	(3,617,353)	(2,264,829)	(5,882,182)
Murabaha contracts receivables, net	150,993,776	100,997,175	251,990,951

	December 31, 2019		
	Current portion SR	Non-current portion SR	Total SR
Murabaha contracts receivables, gross	33,922,658	13,947,289	47,869,947
Less: deferred financing income	(8,765,830)	(2,432,485)	(11,198,315)
	25,156,828	11,514,804	36,671,632
Unearned origination fees	(208,777)	(3,530)	(212,307)
Deferred transaction costs	27,095	6,924	34,019
	24,975,146	11,518,198	36,493,344
Less: Allowance for credit loss	(939,345)	(392,406)	(1,331,751)
Murabaha contracts receivables, net	24,035,801	11,125,792	35,161,593

Analysis of quality of investment in Islamic financing contracts is as follows:

	December 31, 2020 SR	December 31, 2019 SR
Performing - Neither past due nor impaired	693,394,137	142,607,547
Under Performing - Past due but not impaired	7,302,929	2,613,890
Non performing - Past due and impaired	22,789,444	1,995,743
	723,486,510	147,217,180

Management classifies the investment in Islamic financing that are either not yet due or otherwise past due but for 90 days or less as ""performing"" while all receivables that are past due for more than 90 days are classified as ""non-performing"".

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10. INVESTMENT IN INSTALLMENT SALE RECEIVABLES AND ISLAMIC FINANCING CONTRACTS
(Continued)

10.2 Investment in islamic financing contracts, net (Continued)

Below is the breakdown of performing and non-performing Islamic financing:

	December 31, 2020 SR	December 31, 2019 SR
Performing	700,697,066	145,221,437
Non-performing - past due and impaired	22,789,444	1,995,743
	723,486,510	147,217,180

The maturity of the gross investment in islamic financing referred as "GIIF" and present value of gross investment in Islamic financing referred as "PV of GIIF" is as follows:

	December 31, 2020	December 31, 2019		December 31, 2020	December 31, 2019
	GIIF SR	PV of GIIF SR		GIIF SR	PV of GIIF SR
Not later than one year	431,833,561	262,077,881		78,621,042	44,032,268
Later than one year but not later than five years	672,475,078	461,408,629		151,932,048	103,184,912
	1,104,308,639	723,486,510		230,553,090	147,217,180

As at December 31, 2020, stage-wise investment in Islamic financing contract receivable balances and the respective expected credit loss (ECL) are as follows:

	Stage 1	Stage 2	Stage 3	Total
Investment in finance receivable	693,394,137	7,302,929	22,789,444	723,486,510
Less: Allowance for expected credit loss	(6,257,369)	(1,381,582)	(12,978,040)	(20,616,991)
	687,136,768	5,921,347	9,811,404	702,869,519

As at December 31, 2019, stage-wise investment in Islamic financing contract receivable balances and the respective expected credit loss (ECL) are as follows:

	Stage 1	Stage 2	Stage 3	Total
Investment in finance receivable	142,607,547	2,613,890	1,995,743	147,217,180
Less: Allowance for expected credit loss	(1,350,703)	(384,654)	(908,896)	(2,644,253)
	141,256,844	2,229,236	1,086,847	144,572,927

Movement in allowance for expected credit losses during the period is as follows:

	December 31, 2020 SR	December 31, 2019 SR
Opening balance	2,644,253	-
Addition for the year, net	17,972,738	2,644,253
Closing balance	20,616,991	2,644,253

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11. INVENTORIES

	December 31, 2020 SR	December 31, 2019 SR
Trade inventories	911,665,124	858,570,733
Inventory in transit	14,690,631	45,750,527
Spare parts	10,322,545	10,624,367
	936,678,300	914,945,627
Allowance for impairment	(1,060,561)	(1,575,751)
	935,617,739	913,369,876

Movement in the allowance for impairment of inventories is as follows:

	December 31, 2020 SR	December 31, 2019 SR
Opening balance	1,575,751	1,204,253
Addition for the year, net	12,197,263	8,293,656
Utilized against inventories written off	(12,712,453)	(7,922,158)
Closing balance	1,060,561	1,575,751

12. CASH AND CASH EQUIVALENTS

	December 31, 2020 SR	December 31, 2019 SR
Cash at banks	170,913,240	85,814,458
Cash on hand	13,849,749	17,157,531
	184,762,989	102,971,989

12.1 Reconciliation of liabilities arising from financing activities

	December 31, 2020 SR	December 31, 2019 SR
Opening balance	400,000,000	460,000,000
Receipts	2,592,000,000	2,575,200,000
Settlements	(2,652,000,000)	(2,635,200,000)
Closing balance	340,000,000	400,000,000

13. SHARE CAPITAL

	December 31, 2020 SR	December 31, 2019 SR
Authorized and issued	600,000,000	500,000,000
No. of shares SR 10 each	60,000,000	50,000,000
Issued during the year (note 1)	100,000,000	-
No. of shares (SR 10 each)	10,000,000	-
Treasury share (note 30)	(24,000,000)	(20,000,000)
No. of treasury shares of SR 10 each	(2,400,000)	(2,000,000)

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13. SHARE CAPITAL (Continued)

	December 31, 2020 SR	December 31, 2019 SR
<i>Reconciliation of number of shares outstanding</i>		
Opening balance	48,000,000	48,000,000
Shared issued	10,000,000	-
Treasury shares	(400,000)	-
Closing balance	57,600,000	48,000,000

14. STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Group has established a statutory reserve by the appropriation of 10% of net income. General Assembly may cease such appropriation when reserve equaled 30% of the share capital.

15. BANK FACILITIES

The Group has bank facilities from local banks for letter of credit, letters of guarantee, Murabaha Islamic and Tawarruq Islamic financings. These facilities are subject to Islamic Shariah principles. These facilities carry finance charges at market rates and are secured against promissory notes.

	December 31, 2020 SR	December 31, 2019 SR
Murabaha Islamic financing	270,000,000	400,000,000
Tawarruq Islamic financing	70,000,000	-
	340,000,000	400,000,000
Borrowings – Current portion	(156,583,333)	(400,000,000)
Borrowings – Noncurrent portion	183,416,667	-

Classification of borrowings is presented below:

	December 31, 2020 SR	December 31, 2019 SR
Medium-term loans		
Murabaha I	120,000,000	-
Murabaha III	100,000,000	-
Short-term loans		
Tawaruq I	70,000,000	-
Murabaha II	50,000,000	400,000,000
	340,000,000	400,000,000

Murabaha I

Total facilities allocated to the Group's subsidiary "UCFS" amounts to SR 250 million. The annual facilities fees payable as per the terms of contract amounts to SR 1 million which is charged to consolidated statement of profit or loss and other comprehensive income.

In March 2020, the Group's subsidiary "UCFS" has obtained Murabaha financing of SR 100 million by utilizing the facilities of the Company. The loan is repayable in 20 quarterly installment commencing from December 2020.

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15. BANK FACILITIES (Continued)

Murabaha I (Continued)

In November 2020, Group's subsidiary "UCFS" has obtained Murabaha financing of SR 20 million by utilizing the facilities of the Company. The loan is repayable in 20 quarterly installment commencing from August 2021.

Murabaha II

In March 2020, the Group's subsidiary "UCFS" has obtained Murabaha financing of SR 50 million by utilizing the facilities of the Company. The tenure of the facilities is less than one year.

Murabaha III

Total facilities allocated to the Group's subsidiary "UCFS" by the Group amounts to SR 500 million. The borrowing is repayable in 48 monthly installments. The annual facilities fees payable as per the terms of contract amounts to SR 0.5 million which is charged to consolidated statement of profit or loss and other comprehensive income.

In October 2020, the Group's subsidiary "UCFS" has obtained Murabaha financing of SR 50 million by utilizing the facilities of the Company. The loan is repayable in 48 monthly installment commencing from May 2021.

In December 2020, the Group's subsidiary "UCFS" has obtained Murabaha financing of SR 50 million by utilizing the facilities of the Company. The loan is repayable in 48 monthly installment commencing from July 2021.

Tawaruq I

In March 2020, all facilities allocated to the Group's subsidiary "UCFS" amounts to SR 70 million. The tenure of the facilities is less than one year. The subsidiary has obtained Tawaruq financing of SR 70 million from this facility.

16. DEFERRED REVENUE FROM EXTENDED WARRANTY PROGRAM

Extended warranty services comprise of the amounts received from the customers in relation to the sale of extended warranty program. Revenue is deferred and amortized over the period of contract.

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

	December 31, 2020 SR	December 31, 2019 SR
Deferred revenue - Non-current portion	93,576,444	76,924,519
Deferred revenue - Current portion	66,706,136	58,363,381
	160,282,580	135,287,900

Movement of extended warranty service is as follows:

	December 31, 2020 SR	December 31, 2019 SR
Balance as of January 1	135,287,900	119,471,616
Contracts issued	95,988,540	78,538,359
Revenue recognition	(70,993,860)	(62,722,075)
Balance as of December 31	160,282,580	135,287,900

17. LEASE LIABILITY

The Group has lease liabilities related to the stores, lands, warehouses, office equipment and office buildings. With the exception of short-term leases, each lease is presented as a lease liability on the balance sheet. The right of use of office equipment is classified in property and equipment.

Lease term period of stores, lands and warehouses ranges from of 1 to 18 years (2019: 1 to 19 years) with fixed payment terms.

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17. LEASE LIABILITY (Continued)

Movement of the lease liability is as follows:

	December 31, 2020					
	Store	Land	Warehouse	Office Equipment	Office Building	Total
	SR	SR	SR	SR	SR	SR
Opening balance	129,350,949	374,662,652	49,577,645	814,215	-	554,405,461
Additions	-	-	-	-	3,104,512	3,104,512
Interest accrued (note 27)	8,110,485	29,498,072	2,850,551	-	100,383	40,559,491
Discounts received	(3,468,446)	(3,689,642)	(317,100)	-	-	(7,475,188)
Settlements	(24,320,282)	(29,122,922)	(252,900)	(98,070)	(840,522)	(54,634,696)
Closing balance	109,672,706	371,348,160	51,858,196	716,145	2,364,373	535,959,580
Current portion of lease liabilities	24,769,829	29,444,856	17,026,538	108,810	-	71,350,033
Non-current portion of lease liabilities	84,902,877	341,903,304	34,831,658	607,335	2,364,373	464,609,547

	December 31, 2019					
	Store	Land	Warehouse	Office Equipment	Office Building	Total
	SR	SR	SR	SR	SR	SR
Opening balance	144,548,758	378,484,771	722,944	546,395	-	524,302,868
Additions	11,867,311	-	50,487,218	435,000	-	62,789,529
Interest accrued (note 27)	9,100,742	30,338,382	2,546,671	-	-	41,985,795
Settlements	(36,165,862)	(34,160,501)	(4,179,188)	(167,180)	-	(74,672,731)
Closing balance	129,350,949	374,662,652	49,577,645	814,215	-	554,405,461
Current portion of lease liabilities	19,332,986	18,853,607	8,680,823	206,880	-	47,074,296
Non-current portion of lease liabilities	110,017,963	355,809,045	40,896,822	607,335	-	507,331,165

As at December 31, 2020, lease payments and finance charges related to lease liabilities are as follows:

	Current	1-5 years	6-10 years	11-18 years	Total
	SR	SR	SR	SR	SR
Lease payments	105,467,494	319,045,107	225,629,287	138,247,850	788,389,738
Finance charges	(34,117,461)	(130,401,553)	(68,337,648)	(19,573,496)	(252,430,158)
Net present values	71,350,033	188,643,554	157,291,639	118,674,354	535,959,580

As at December 31, 2019, lease payments and finance charges related to lease liabilities are as follows:

	Current	1-5 years	6-10 years	11-19 years	Total
	SR	SR	SR	SR	SR
Lease payments	87,566,789	357,424,381	261,681,431	183,859,243	890,531,844
Finance charges	(40,492,493)	(160,853,784)	(95,748,471)	(39,031,635)	(336,126,383)
Net present values	47,074,296	196,570,597	165,932,960	144,827,608	554,405,461

The Group has short-term and low value lease arrangements and the expense for the year relating to short-term and low value lease arrangement was SR 2,656,180 (2019: SR 3,896,548).

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18. END OF SERVICE BENEFITS

Movement in employees' end of service benefits during the year is as follows:

	December 31, 2020 SR	December 31, 2019 SR
Opening balance	59,900,995	55,815,961
Transferred on acquisition	-	1,175,255
Expense charge for the year	12,331,469	11,848,531
Re-measurement loss	8,437,158	1,035,130
Payment	(5,789,534)	(9,973,882)
Closing balance	74,880,088	59,900,995

Expenses charged to consolidated statement of profit or loss for the year:

	December 31, 2020 SR	December 31, 2019 SR
Current service cost	9,456,683	9,420,096
Interest cost	2,874,786	2,428,435
Cost recognized in profit and loss	12,331,469	11,848,531

	December 31, 2020 SR	December 31, 2019 SR
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Principal actuarial assumptions

Discount factor used	2.10%-5.30%	4.77% - 6.32%
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Salary increase rate

Year 1	2.00%	3.00%
Year 2 & onwards	2.00%	3.00%
Rates of employees turnover	HIGH	HIGH

Sensitivity analysis on present value of defined benefit obligations plan are as below:

	December 31, 2020		December 31, 2019	
	Percentage	SR	Percentage	SR
Discount rate				
Increase	0.50%	72,218,929	0.50%	57,350,397
Decrease	-0.50%	77,700,078	-0.50%	61,280,609
Expected rate of salary				
Increase	0.50%	77,691,458	0.50%	61,307,019
Decrease	-0.50%	72,201,286	-0.50%	57,308,945

The above 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 as when calculating the employees end-of-service benefits recognized within the consolidated statement of financial position.

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19. TRADE PAYABLES AND OTHER LIABILITIES

Trade payables and other liabilities comprise of the following:

	December 31, 2020 SR	December 31, 2019 SR
Trade payables	770,460,373	614,148,827
Accrual for employees' costs	47,585,108	38,780,305
Gift cards	28,669,400	37,042,302
Advance from customers	26,697,952	29,980,433
Non trade payables	16,638,489	13,167,816
Value added tax (VAT)	16,144,793	6,159,742
Accrual for utilities and other charges	10,674,975	18,544,080
Due to related parties (Note 28)	2,847,823	2,217,182
Others	52,743,461	48,440,814
	972,462,374	808,481,501

Others include liabilities for supply chain and online delivery expenses.

20. ZAKAT AND INCOME TAX PROVISION

At the year end dated December 31, 2020, the Zakat and income tax provisions are as follow:

	December 31, 2020 SR	December 31, 2019 SR
Zakat	15,524,300	11,476,745
Income tax	3,215,034	-
	18,739,334	11,476,745

20.1 ZAKAT

The Group files its zakat return on consolidated basis except for its subsidiary United Company for Financial Services which file their zakat return on stand-alone basis.

The following zakat base and zakat provision calculation for the Group, exclude the results of the subsidiary Company which filled separate zakat return.

Zakat charge is calculated as below:

	December 31, 2020 SR
Opening share capital	500,000,000
Reserves and opening provisions less utilized	685,222,264
Retained earnings	129,565,441
Income subjected for zakat	306,286,536
Dividends and adjustments	(62,500,000)
Closing value of long-term assets	(1,222,467,342)
Approximate zakat base	336,106,899
Zakat due at 2.5% *	8,425,838
Zakat for subsidiary Companies filling zakat return on stand-alone basis	5,335,647
Total zakat charge for the year	13,761,485

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20. ZAKAT AND INCOME TAX PROVISION (Continued)

20.1 ZAKAT (Continued)

Zakat charge for the year 2019 is calculated as below:

	December 31, 2019 SR
Opening share capital	500,000,000
Reserves and opening provisions less utilized	775,689,677
Retained earnings	140,861,047
Income subjected for zakat	275,610,914
Dividends and adjustments	(140,861,047)
Closing value of long-term assets	<u>(1,108,952,984)</u>
Approximate zakat base	442,347,607
Zakat due at 2.5%*	11,188,217
Zakat for subsidiary Companies filling zakat return on stand-alone basis	<u>313,304</u>
Total zakat charge for the year	<u><u>11,501,521</u></u>

The differences between the financial and the Zakatble results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

Movement in provision for zakat is as follows:

	December 31, 2020 SR	December 31, 2019 SR
At January 1,	11,476,745	7,900,373
Provision for the year	13,761,485	11,501,521
Under provision	-	533,175
Assessment charge	-	359,691
Payments	<u>(9,713,930)</u>	<u>(8,818,015)</u>
As at December 31,	<u>15,524,300</u>	<u>11,476,745</u>

Zakat assessment

The Group received zakat and income tax assessments from General Authority of Zakat and Tax ("GAZT") for the years 2004 to 2010 which were settled in prior years. During 2019, the Group received assessment for the year 2017 which was settled during the same year. During the year ended December 31, 2020, the Group received and settled the final assessment for the year 2014 amounting to SR 81,371.

Further, during the year ended December 31, 2020, the Group received an assessment from GAZT for the year 2015, 2016 and 2018 claiming zakat and tax amounting to SR 1.81 million. The Group paid an amount of SR 1 million from the claimed amount and filed the objection against the remaining amounts. The management believes that no further provision is required in these consolidated financial statements.

The Group has obtained the zakat certificate for the year ended December 31, 2019.

20.2 INCOME TAX

The income tax provision is related the subsidiary "United Electronics Company Extra L.L.C." The income tax is calculated as per Omani income tax regulations.

During the year, the Subsidiary Company recorded an expense of income tax amounting to SR 4,355,617 and settled income tax amounting to SR 1,140,583.

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21. SEGMENTAL REPORTING

The Group has the segregated the operations into two main reporting segments, these reporting segment are as follows:

Segment	<u>Business</u>
Retail/Whole Sales	Retail, whole sales, installation and repair services of electronics products, computers, smartphones and accessories, extended warranties and gift cards
Consumer finance	Consumer financing under Murabaha and Tawarruq products

Group operates Whole sales business under the brand name “eXtra” and Consumer finance business is operated under the brand name “Tasheel”. All other business activities are classified as “Others”.

The Group’s Chief Executive Officer and board of directors reviews the internal management reports of each segment at least quarterly.

The information related to each segment is set-out below:

For year ended December 31, 2020

	Retail/ Wholesale SR	Consumer finance SR	Others SR	Consolidation adjustments SR	Total SR
Revenue, net	5,835,077,363	130,631,662	11,071,882	(14,466,404)	5,962,314,503
Net profit	259,797,940	21,342,713	753,699	(1,751,628)	280,142,724
Total assets	2,186,651,378	781,265,636	8,683,971	(47,135,591)	2,929,465,394
Total liabilities	1,714,132,166	429,498,514	5,339,301	(45,383,963)	2,103,586,018

For year ended December 31, 2019

	Retail/ Wholesale SR	Consumer finance SR	Others SR	Consolidation adjustments SR	Total SR
Revenue, net	5,120,242,956	15,580,894	3,259,854	(4,480,188)	5,134,603,516
Net profit	224,305,460	(18,792,820)	101,652	-	205,614,292
Total assets	2,481,229,188	176,934,435	4,379,944	(27,541,848)	2,635,001,719
Total liabilities	1,961,402,630	45,911,560	1,685,766	(33,909,299)	1,975,090,657

Geographical financial information

The Group’s operations are settled in Kingdom of Saudi Arabia and certain Gulf Cooperation Council (GCC) countries. The geographical information analyses the Group’s revenue and non-current assets by the Company’s country of domicile and other countries.

<u>December 31, 2020</u>	Inside the Kingdom of Saudi Arabia SR	Outside the Kingdom of Saudi Arabia SR	Consolidation adjustments SR	Total SR
Revenue	5,522,627,623	454,153,284	(14,466,404)	5,962,314,503
Net profit	303,198,278	18,759,000	(41,814,554)	280,142,724
Total Assets	3,157,585,976	208,654,847	(436,775,429)	2,929,465,394
Total liabilities	1,977,793,990	180,676,251	(54,884,223)	2,103,586,018

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21. SEGMENTAL REPORTING (Continued)

December 31, 2019	Inside the Kingdom of Saudi Arabia SR	Outside the Kingdom of Saudi Arabia SR	Consolidation adjustments SR	Total SR
Revenue	4,831,351,914	307,731,790	(4,480,188)	5,134,603,516
Net profit	210,749,495	6,887,937	(12,023,140)	205,614,292
Total Assets	2,698,990,941	203,155,367	(267,144,589)	2,635,001,719
Total liabilities	1,884,021,611	195,339,444	(104,270,398)	1,975,090,657

22. REVENUES

The components of the revenue are as follows:

	December 31, 2020 SR	December 31, 2019 SR
Retail and wholesale	4,580,227,344	4,517,283,617
E-commerce	1,247,141,774	593,474,013
Consumer finance	130,631,662	15,580,894
Others	4,313,723	8,264,992
	5,962,314,503	5,134,603,516

23. SELLING, MARKETING AND DISTRIBUTION EXPENSES

	December 31, 2020 SR	December 31, 2019 SR
Salaries, wages and other employees' benefits	240,245,527	267,130,223
Advertising and other related cost	52,260,972	37,278,815
Depreciation - Right of use (Note 6)	52,210,521	48,503,751
Depreciation - Property and equipment (Note 5)	38,106,664	39,274,951
Delivery charges	31,070,463	12,412,912
Utilities, printing and stationary	27,324,085	27,188,257
Bank commission on credit/debit card sales	18,339,911	17,747,659
Repair and maintenance	16,990,044	10,696,011
Security services and cash pick up charges	10,255,547	9,447,374
Amortization – Intangible assets (Note 7)	8,719,937	2,741,563
Cleaning services	8,241,621	7,285,365
Provision for impairment of sales installment receivables (Note 10)	5,000,901	11,164,533
Rent	2,470,500	3,896,548
Travel and accommodation	1,393,697	2,410,898
Legal expenses	939,988	1,658,380
Others	21,731,454	10,353,389
	535,301,832	509,190,629

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24. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2020 SR	December 31, 2019 SR
Salaries, wages and other employees' benefits	125,703,992	104,845,657
Depreciation - Property and equipment (Note 5)	4,814,885	3,362,394
Amortization – Intangible assets (Note 7)	4,427,011	5,696,105
Repair and maintenance	4,219,902	5,447,049
Legal and consultancy	3,989,123	4,141,864
Utilities, printing and stationary	2,983,103	5,060,641
Travel and accommodation and communication	1,598,254	2,321,449
Cleaning services	613,795	532,988
Security and cash pickup	185,680	95,716
Depreciation - Right of use (Note 6)	114,715	114,716
Others	6,212,243	11,603,407
	154,862,703	143,221,986

25. OTHER EXPENSES

	December 31, 2020 SR	December 31, 2019 SR
Claim expense	10,590,384	-
Property and equipment written off	7,316,418	-
Donation	6,264,155	-
Exchange rate losses	1,482,092	523,801
Intangible assets written off	121,161	-
Loss on Property and equipment disposals	35,155	10,384
Other	489,454	2,660,758
	26,298,819	3,194,943

26. OTHER INCOME

	December 31, 2020 SR	December 31, 2019 SR
Reversal of impairment allowance for factorized installment sales receivables	7,862,344	-
Rental discount	7,475,188	-
Income from time deposits	2,076,614	809,363
Service fee income	1,335,330	1,093,070
Gain on factorization of installment sales receivables, net	-	17,471,075
Income from insurance claim	-	4,406,061
Refund from Government for Saudization	-	3,347,216
Others	5,814,314	3,385,240
	24,563,790	30,512,025

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27. FINANCE CHARGES

	December 31, 2020 SR	December 31, 2019 SR
Lease liability interest charges	40,559,491	41,985,795
Interest charges on loan	8,305,227	14,973,281
Bank charges	716,556	74,469
	49,581,274	57,033,545

28. RELATED PARTIES' TRANSACTIONS AND BALANCES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below and terms and conditions of such transactions are approved by the Company's management, Board of Directors and General Assembly.

During the year ended December 31 2020, the Group had significant transactions with its following related parties.

Entity	Relationship
Al Fozan Holding Company	Major Shareholder
Abdullatif and Mohamed Al Fozan Co.	Affiliate of a major shareholder
United Homeware Company	Affiliate of a major shareholder
Madar Building Materials Co.	Affiliate of a major shareholder
Madar Electrical Materials Co.	Affiliate of a major shareholder
Madar Tools & Equipment Co.	Affiliate of a major shareholder
Retal Urban Development Company	Affiliate of a major shareholder
Almajdoui motor Company	Affiliate of a board member
Al Yassra Trading Co.	Affiliate of a board member

The due amounts are on commercial substance and will be settled in cash. Balance due to related parties are included under trade payables and other liabilities.

During the year, the Group entered into the following transactions with related parties that are not members of the Group:

Nature of transaction	Transaction Amount		Balance at	
	December 31, 2020 SR	December 31, 2019 SR	December 31, 2020 SR	December 31, 2019 SR
Sales to / Revenue from				
Al Fozan Holding Company	156,477	452,893	749	31,763
Retal Urban Development Company	225,126	91,770	3,178	50,285
United Homeware Company	-	543,678	-	247,551
	381,603	1,088,341	3,927	329,599
Purchases / (returns)				
United Homeware Company	9,033,002	16,142,837	2,248,883	1,769,102
Madar Tools & Equipment Co.	1,279,673	326,871	568,226	417,367
Al Fozan Holding Co	5,250,000	-	-	-
Al Yassra Trading Co.	-	43,974	30,714	30,713
	15,562,675	16,513,682	2,847,823	2,217,182

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28. RELATED PARTIES' TRANSACTIONS AND BALANCES (Continued)

During the year, the Group entered into the following transactions with related parties that are not members of the Group:

Nature of transaction	Transaction Amount		Balance at	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
	SR	SR	SR	SR
Fixed assets purchases from				
Almajdoui motor Company	-	336,310	-	-
Madar Electrical Materials Co.	-	174,036	-	-
	-	510,346	-	-
Rental income from				
United Homeware Company	2,704,444	6,304,080	782,000	2,549,617
Rent expense from				
Madar Building Materials Co.	458,333	550,000	-	-
Abdullatif and Mohamed Al Fozan Co.	1,471,000	1,471,000	-	-
	1,929,333	2,021,000	-	-
Other expenses expense charge by / (to)				
Madar Building Materials Co.	386,284	351,970	-	-
United Homeware Company	(444,256)	(455,836)	251,151	-
	(57,972)	(103,866)	251,151	-
Management fee income from				
United Homeware Company	1,369,946	1,191,258	1,369,946	-

Key management compensation:

	December 31, 2020	December 31, 2019
	SR	SR
Short term benefit	19,306,552	25,849,425
BOD and related committees remuneration	2,471,433	3,062,157
Amount payable under retention program	1,183,947	1,246,335

As of December 31, 2020, balance due to key management personnel amounts to SR 3,463,947 (2019: SR 4,224,143).

29. EARNINGS PER SHARE

Basic Earnings per share for the year is as follows,

	December 31, 2020	December 31, 2019
	SR	SR
Basic earnings per share		
Profit for the year	280,142,724	205,614,292
Weighted average number of outstanding shares	57,600,000	57,600,000
	4.86	3.57

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29. EARNINGS PER SHARE (Continued)

Diluted Earnings per share for the year is as follows,

	December 31, 2020 SR	December 31, 2019 SR
Diluted earnings per share		
Profit for the year	280,142,724	205,614,292
Weighted average number of outstanding shares	60,000,000	60,000,000
	4.67	3.43

30. LONG-TERM INCENTIVE PROGRAM

The Group provides a long-term incentive program (the “program”) to certain qualified employees who will be rewarded for their role in achieving the Group's long-term goals and to attract and retain talented employees. The program focuses on both current and future performance and enables participants to contribute to the Group’s success and is measured based on performance rates determined by the nomination and remuneration Committee.

The program is entirely based on in kind settlement where the approved participants will receive the Group’s shares (restricted shares “treasury shares”) upon completing the vesting period and achieving the performance measures and fulfilling the necessary conditions by the participant in addition to completing the required approvals.

To participate in the plan, employees must meet the eligibility criteria as set by the Group including a minimum years of service in the Group maintaining excellent performance rating in addition to other factors. Under the terms of the plan, the option will be vested by end of 2021, 2022 and 2023. Only employees that remain in service will become entitled for this option.

During the year, the Group modified the terms of the program that resulted in a total share based payment charge uplift by SR 3.4 million for the current year.

This program is under the supervision of the nomination and remuneration Committee that is approved by the Board of Directors.

The total expenses related to the program for the year ended December 31, 2020, amounting to SR 7.5 million (2019: SR 6 million) was charged to the employees’ benefit expenses with a corresponding increase in the statement of changes in equity in accordance with the requirements of the International Financial Reporting Standard No. (2) "share based payment".

Under the Employees’ Stock Option Program (ESOP) shares were granted on September 19, 2018 and January 1, 2020. The number of shares shall not exceed 20 million shares.

The following table sets out the movement of share options:

	December 31, 2020	December 31, 2019
At the beginning of the year	1,887,000	1,926,000
Granted during the year	80,000	-
Options revoke for employees left during the year	(31,000)	(39,000)
Adjustment for the capital increase	387,200	-
At the end of the year	2,323,200	1,887,000

The fair value per Option is estimated at the grant date, i.e. September 19, 2018 and modified at January 1, 2020, 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. LONG-TERM INCENTIVE PROGRAM (Continued)

Following are inputs used for the calculating of fair value of option:

	2020	2018
Input to the Model:		
Dividend Yield (%)	5	5
Avg. Expected Volatility (%)	32.05	31.9
Avg. Risk Free Interest Rate (%)	2.13	3.23
Avg. Contractual Life of Share Options (Years)	8.5	9.3
Share Price (SAR) at Grant Date	74.7	48.05
Share Price (SAR) at Grant Date (Adjusted for Capital increase)	62.25	40.04
Exercise Price (SAR) at Grant Date	74.7	48.05
Exercise Price (SAR) at Grant Date (Adjusted for Capital increase)	62.25	40.04
Exercise Price (SAR) at Grant Date (if additional performance target met)	-	-
Avg. Fair Value per Option	13.7	9.60
Avg. Fair Value per Option (Adjusted for Capital increase)	11.4	8
Avg. Fair Value per Option (Adjusted for Capital increase and modified grant terms)	13.4	9.4
Avg. Remaining Contractual Life (Years)	7.5	7

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the Options is indicative of future trends, which may also not necessarily be the actual outcome.

The following table shows movement during the year:

Treasury shares

	December 31, 2020 SR	December 31, 2019 SR
At the beginning of the year	20,000,000	20,000,000
Acquired during the year	4,000,000	-
	24,000,000	20,000,000

31. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group's principal financial liabilities comprise lease liabilities, trade payables and other liabilities and borrowings. The Group's principal financial assets comprise cash and cash equivalents, trade receivables, installment sale receivables and investment in Islamic financing contracts and other assets.

Financial instruments by category

	December 31, 2020 SR	December 31, 2019 SR
Financial assets at amortized cost:		
Trade receivables and other assets	63,253,141	100,784,993
Investment in Islamic financing contracts	703,166,901	143,899,072
Installment sale receivables	99,752,217	339,102,159
Cash and cash equivalents	184,762,989	102,971,989
Total Financial assets	1,050,935,248	686,758,213
Financial liabilities at amortized cost:		
Trade payables and other liabilities	895,302,660	716,906,718
Lease liability	535,959,580	554,405,461
Borrowings	340,000,000	400,000,000
Total financial liabilities	1,771,262,240	1,671,312,179

The Group has no financial asset / liability at fair value through profit and loss.

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31. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

The main financial risks arising from the Group's financial instruments are market risk, liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks which are summarized below:

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign currency exchange rates may affect the Group's income. The Group was exposed to market risk, in the form of interest rate risk and foreign currency risk as described below, during the year under review. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk management

Foreign currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates. The Group's major financial assets and financial liabilities are denominated in Saudi Riyal, Omani Riyal (OR), Bahraini Dinar (BD), US Dollars (USD), Arab Emirates Dirham (AED), Canadian Dollars (CAD) and Euro (Euro). Saudi riyals are pegged to the US Dollar, similarly Bahraini Dinar and Omani Riyals and consequently balances in those currencies are not considered to represent a currency risk.

Management monitors the fluctuations in Euro, CAD and AED currency exchange rates with Saudi Riyals and manages its effect on the consolidated financial statements accordingly. Management monitors fluctuations in other foreign exchange rates and manages their effect on the consolidated financial statements accordingly. The Group did not have any significant foreign currency denominated monetary assets or liabilities at the reporting date for which it was exposed to foreign currency fluctuations.

Consequently, no foreign currency sensitivity analysis has been presented. The Group maximum exposed to foreign currency risk is as follows:

		December 31, 2020	December 31, 2019
	Currency	SR	SR
Cash and cash equivalent	USD	1,582,632	502,552
	EUR	8,100	25,160
Trade payables and other liabilities	USD	62,973,856	80,909,887
	AED	722,023	344,395
	EUR	2,977,113	554,859
	CAD	13,481	-

Interest rate

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has interest bearing loans at December 31, 2020 and 2019.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate assets and liabilities, the analysis is prepared assuming the amount of the assets or liability outstanding at the end of the reporting period was outstanding for the whole period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

		Increase/ Decrease in basis points of interest rates	Effect on expense / (income) for the year
	SR	SR	SR
December 31, 2020	SAR	+50	10,012,280
	SAR	-50	(6,362,891)
December 31, 2019	SAR	+50	1,883,255
	SAR	-50	(1,937,756)

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31. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

The Group maintains sufficient cash. Management review cash flow forecasts on a regular basis to determine whether the Group has sufficient cash reserves to meet future working capital requirements and to take advantage of business opportunities. The average creditor payment period is 53 days (2019: 49 days).

Contractual maturity analysis for financial liabilities

The following table has been drawn up based on the discounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables represent discounted cash flows:

December 31, 2020	Interest rate	Within 1 year	1-18 years	Total
		SR	SR	SR
Trade payables and other liabilities	Interest free	895,302,660	-	895,302,660
Borrowings	1-57%-2.49%	156,583,333	183,416,667	340,000,000
Lease liability	4.26%-11.21%	71,350,033	464,609,547	535,959,580

December 31, 2019	Interest rate	Within 1 year	1-19 years	Total
		SR	SR	SR
Trade payables and other liabilities	Interest free	716,906,718	-	716,906,718
Borrowings	3.56%-4.05%	400,000,000	-	400,000,000
Lease liability	4.26%-11.21%	47,074,296	507,331,165	554,405,461

Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its short term cash investments, trade receivables and Investment in installment sales receivables and Islamic financing contracts.

The maximum exposure to credit risk at the reporting date was:

	December 31, 2020 SR	December 31, 2019 SR
Description		
Investment in Islamic financing contracts	703,166,901	143,899,072
Cash at Bank	170,913,240	85,814,458
Installment sale receivables	99,752,217	339,102,159
Trade receivables and other assets	63,253,141	100,784,993

*For sales installment receivables and investment in financing contracts, these have been measured based on Expected Credit Loss (ECL) method. The class wise categorization of installment sales receivables' and investment in financing contracts' ECL are included in note 10.

The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. With respect to credit risk arising from the financial assets of the Group, including receivables from employees and bank balances, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these assets in the consolidated statement of financial position.

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from the previous year. The capital structure of the Group consists of equity and debt comprising share capital, the statutory reserve, retained earnings, other reserves and borrowings. The Group is not subject to any externally imposed capital requirements.

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FOR THE YEAR ENDED DECEMBER 31, 2020**

31. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Fair value of financial instruments

The directors consider that the carrying values of the financial instruments reported in the consolidation statement of financial position approximate their fair values.

32. DIVIDENDS DISTRIBUTION

On July 19, 2020, the Board of Directors of the Group resolved to distribute SR 60 million cash dividend of SR 1 per share to the shareholders of the Group for the first half of 2020. The dividends were distributed during the year.

On March 05, 2020, the Board of Directors of the Group resolved to distribute SR 62.5 million cash dividend of SR 1.25 per share to the shareholders of the Group for the second half of 2019. The dividends were distributed during the year.

On July 08, 2019 the Board of Directors of the Group resolved to distribute SR 50 million cash dividend of SR 1 per share to the shareholders of the Group for the first half of 2019. The dividends were settled during the period ended September 30, 2019.

On April 08, 2019, the Board of Directors of the Group resolved to distribute SR 62.5 million cash dividend of SR 1.25 per share to the shareholders of the Group for the second half of 2018. The dividends were settled during the period ended June 30, 2019.

33. PURCHASE AND AGENCY AGREEMENTS

During the financial year ended December 31, 2019, the Group entered into purchase and agency agreements (the "agreements") with a local bank based on which the Group has sold its designated installment sales receivables to the bank and then managing these receivables on behalf of the bank as an agent as per the terms of these purchase and agency agreements. The Group sold SR 129.78 million of its net receivables against which a gain of SR 17.47 million has been recognized in year 2019.

As on December 31, 2020, the Group has the provision with present value of SR 2,090,885 (2019: SR 9,953,229) for expected defaults and early termination.

According to the terms and condition of the agreement, the Group has also recognized servicing liability for this agreement by estimating the present value of servicing liability which is classified as follows:

	December 31, 2020 SR	December 31, 2019 SR
Present value of net servicing liability	61,260	1,396,590
Less: current portion	(61,260)	(836,650)
Non-current portion (disclosed as other non-current liabilities)	-	559,940

34. CONTINGENCIES AND COMMITMENTS

	December 31, 2020 SR	December 31, 2019 SR
Letters of credit	483,364,451	368,435,430
Letters of guarantee	54,401,266	55,032,448
Commitments for the acquisition of property and equipment	10,000,000	8,982,458
Commitments for the acquisition of intangible assets	-	1,756,691

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

35. IMPACT OF COVID-19 PENDAMIC

During the year, the new Coronavirus disease (COVID-19) has spread worldwide, causing disruption to businesses and economic activity on the business level. The government of the Kingdom of Saudi Arabia announced additional decisions to control the impact of the outbreak which includes the 24 hours' curfew across certain cities in the Kingdom for a few months of the year. Further the Government through its Royal decrees also announced to support the private sector to limit the impact of the precautionary actions taken.

The Group, at this stage, believes that the potential impact of this event was not material for the consolidated financial statements of the Group. However, the Group will continue monitoring the current epidemic and the economic conditions to protect customers and employees and follow up on future developments, if any, that cannot be accurately estimated.

36. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation of the current year.

37. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issuance by the board of directors on behalf of the shareholders on February 21, 2021 corresponding to Rajab 9, 1442H.