

**BIN DAWOOD HOLDING COMPANY (A SAUDI JOINT
STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

31 DECEMBER 2020

**BIN DAWOOD HOLDING COMPANY (A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020**

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BIN DAWOOD HOLDING COMPANY (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 auditors' opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
BIN DAWOOD HOLDING COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Recognition of suppliers' support incentives</p> <p>The Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts (collectively "supplier support incentives") are recognised in connection with the purchase of goods from suppliers and are recorded as reduction from cost of goods sold based on the estimated value of the supplier support incentives.</p> <p>We deemed the recognition of suppliers' support incentives to be a key audit matter given:</p> <ul style="list-style-type: none"> • exercise of professional judgment in determining whether such incentives are considered part of the purchase price of the product in estimating the recognition of such incentives; • large number of suppliers with varying contractual relationships where significant judgement is required to estimate the incentives which are dependent on the Group's eligibility subject to the achievement of certain contractual conditions and a number of other factors that includes prevailing industry practices, certain promotional activities, continuing supplier relationship, as well as the Group's business performance during the year in terms of annual sales; • the materiality of annual incentives recognized in the consolidated financial statements; and • the complexity involved in assumptions used for estimating these amounts for the year ended. <p>Refer to note 3 to the consolidated financial statements for the significant accounting policy, note 2.4 for the significant accounting estimates and judgements.</p>	<p>Our audit procedures include the following, among others:</p> <ul style="list-style-type: none"> • gaining thorough understanding of the management's process in estimating and recording each material type of suppliers' support incentives; • on a sample basis, evaluating whether amounts recognised are reasonable and recorded in the correct period in reference to the contractual performance obligations per the supplier agreements; • verifying that supplier support incentives that are related to the inventory balance as of yearend, as well as the related supplier balances are appropriately reduced; • reviewing the accuracy and completeness of key inputs and system reports used by management against underlying supports; and • assessing the adequacy of related disclosure within the Group's consolidated financial statements.



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
BIN DAWOOD HOLDING COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Existence of inventories</p> <p>Inventories as at 31 December 2020 amounted to SR 1,000.3 million representing 61% of current assets of the Group.</p> <p>The cost of inventory is reduced by provisions including those relating to estimated losses due to shrinkage (Note 2.4).</p> <p>We deemed it to be a key audit matter given:</p> <ul style="list-style-type: none"> • the Group deals with large number of inventory items at multiple locations with high volume of transactions daily which increases the risk of inventory shrinkage; and • significant judgements made by the management in assessing the level of provisions required as of yearend which includes assessment of inventory levels in relation to revenue for the period in consideration. <p>Refer to note 3 to the consolidated financial statements for the significant accounting policy, note 2.4 for the significant accounting estimates and note 12 which details the inventories.</p>	<p>We performed the following procedures, among others:</p> <ul style="list-style-type: none"> • attended stock counts and performed sample counts at a number of the Group's stores; • obtained understanding of the stock take and provisioning processes and performed walkthrough and test of key controls. When reviewing management's inventory count processes and controls, we also considered the process for controlling or managing stock movements during the count; • performed roll forward / roll back procedures including transactions testing on sample basis; • assessed reasonableness of the assumptions used in estimating the shrinkage provision including reviewing of accuracy and completeness of the key inputs with the underlying supports. We reviewed recent count results, for a sample of Group's stores, to ensure that the year-end shrinkage provision adequately reflected the levels of stock loss experienced during the year; and • assessed the adequacy of related disclosure (notes 2.4, 3 and 12) included in the consolidated financial statements of the Group.

Other information included in the Group's 2020 Annual Report

Other information consists of the information included in the Group's 2020 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The Group's 2020 annual report is expected to be made available to us after the date of this auditors' report.

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

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

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



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
BIN DAWOOD HOLDING COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
BIN DAWOOD HOLDING COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

28 March 2021G
15 Sha'aban 1442 H

Jeddah



Bin Dawood Holding Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Revenue from contracts with customers		5,156,471,599	4,843,772,262
Cost of revenue		(3,484,580,449)	(3,199,242,525)
GROSS PROFIT		1,671,891,150	1,644,529,737
Selling and distribution expenses	7	(1,002,547,503)	(1,006,788,369)
General and administration expenses	8	(164,008,508)	(130,873,961)
Other operating income		9,235,537	11,397,059
OPERATING PROFIT		514,570,676	518,264,466
Other income		17,005,561	7,864,075
Finance cost on lease liabilities		(68,671,762)	(95,799,880)
PROFIT FOR THE YEAR BEFORE ZAKAT		462,904,475	430,328,661
Zakat	19	(15,182,483)	(11,192,342)
PROFIT FOR THE YEAR		447,721,992	419,136,319
OTHER COMPREHENSIVE LOSS			
<i>Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:</i>			
Re-measurement loss on employees' terminal benefits	17	(2,535,391)	(2,227,822)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		445,186,601	416,908,497
Earnings per share attributable to ordinary equity holders of the Parent Company (basic and diluted)	9	3.92	3.67

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

Bin Dawood Holding Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		<i>31 December 2020</i>	<i>31 December 2019</i>
	<i>Notes</i>	<i>SR</i>	<i>SR</i>
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	10	819,573,557	940,398,846
Intangible assets		166,650	193,133
Right-of-use assets	11	2,306,480,633	2,356,831,705
TOTAL NON-CURRENT ASSETS		3,126,220,840	3,297,423,684
CURRENT ASSETS			
Inventories	12	1,000,267,648	918,983,808
Trade and other receivables	13	332,612,616	227,966,901
Prepayments and advances	13	78,351,093	84,249,194
Cash and bank balances	14	232,197,724	214,950,268
TOTAL CURRENT ASSETS		1,643,429,081	1,446,150,171
TOTAL ASSETS		4,769,649,921	4,743,573,855
EQUITY AND LIABILITIES			
EQUITY			
Share capital	16	1,143,000,000	1,143,000,000
Statutory reserve	16	87,259,202	42,487,003
Retained earnings		82,680,640	866,238
TOTAL EQUITY		1,312,939,842	1,186,353,241
NON-CURRENT LIABILITIES			
Employees' terminal benefits	17	104,581,994	91,886,141
Lease liabilities	11	2,265,202,787	2,297,444,070
TOTAL NON-CURRENT LIABILITIES		2,369,784,781	2,389,330,211
CURRENT LIABILITIES			
Due to related parties	15	16,930,608	12,386,752
Accounts payable, accruals and other financial liabilities	18	756,207,298	883,624,722
Unearned income and other payable	18	36,349,882	35,319,190
Lease liabilities – current portion	11	260,064,477	220,994,425
Zakat payable	19	17,373,033	15,565,314
TOTAL CURRENT LIABILITIES		1,086,925,298	1,167,890,403
TOTAL LIABILITIES		3,456,710,079	3,557,220,614
TOTAL EQUITY AND LIABILITIES		4,769,649,921	4,743,573,855

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

Bin Dawood Holding Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	<i>Share capital SR</i>	<i>Statutory reserve SR</i>	<i>Retained earnings SR</i>	<i>Total SR</i>
Balance at 1 January 2019	530,000,000	129,693,833	354,750,911	1,014,444,744
Profit for the year	-	-	419,136,319	419,136,319
Other comprehensive loss for the year	-	-	(2,227,822)	(2,227,822)
<i>Total comprehensive income for the year</i>	-	-	416,908,497	416,908,497
Increase in share capital (note 16(a))	613,000,000	(129,120,462)	(483,879,538)	-
Transfer to statutory reserve	-	41,913,632	(41,913,632)	-
Dividend (note 16(c))	-	-	(245,000,000)	(245,000,000)
Balance at 31 December 2019	1,143,000,000	42,487,003	866,238	1,186,353,241
Profit for the year	-	-	447,721,992	447,721,992
Other comprehensive loss for the year	-	-	(2,535,391)	(2,535,391)
<i>Total comprehensive income for the year</i>	-	-	445,186,601	445,186,601
Transfer to statutory reserve	-	44,772,199	(44,772,199)	-
Dividend (note 16(c))	-	-	(318,600,000)	(318,600,000)
Balance at 31 December 2020	1,143,000,000	87,259,202	82,680,640	1,312,939,842

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

Bin Dawood Holding Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

		<i>31 December</i>	<i>31 December</i>
		<i>2020</i>	<i>2019</i>
	<i>Notes</i>	<i>SR</i>	<i>SR</i>
OPERATING ACTIVITIES			
Profit for the year before zakat		462,904,475	430,328,661
<i>Adjustments to reconcile profit before zakat to net cash flows:</i>			
Depreciation on property and equipment	10	165,448,563	160,093,738
Depreciation - right of use assets, net	11	269,114,934	259,594,840
Amortization of intangible assets		196,422	379,136
Finance cost on lease liabilities	11	96,329,767	95,858,849
Covid-19 related rent concessions	11	(27,598,291)	-
Loss on disposal of property and equipment		889,292	245,628
Current service cost	17	14,632,870	13,029,747
Interest cost related to employees' terminal benefits	17	2,914,384	2,697,763
Gain on termination of lease liability – net		(4,662,237)	-
		980,170,179	962,228,362
<i>Working capital adjustments:</i>			
Trade and other receivables, prepayments and advances		(98,747,614)	(115,948,471)
Inventories		(81,283,840)	(113,355,240)
Accounts payables, accruals and other liabilities		(126,386,732)	(51,497,974)
Due from related parties		-	1,685,390
Due to related parties		4,785,862	3,480,859
Cash from operations		678,537,855	686,592,926
Zakat paid	19	(13,374,764)	(2,198,775)
Employees' terminal benefits paid	17	(7,630,625)	(6,296,316)
Net cash from operating activities		657,532,466	678,097,835
INVESTING ACTIVITIES			
Purchase of property and equipment	10	(45,746,441)	(41,453,159)
Purchase of intangible assets		(169,939)	-
Proceeds from disposal of property and equipment		235,702	5,840,410
Net cash used in investing activities		(45,680,678)	(35,612,749)
FINANCING ACTIVITIES			
Dividend paid	16	(318,600,000)	(245,000,000)
Payment of lease liabilities (including prepayments)		(276,004,332)	(305,421,684)
Net cash used in financing activities		(594,604,332)	(550,421,684)
Net increase in cash and bank balances		17,247,456	92,063,402
Cash and bank balances at the beginning of the year	14	214,950,268	122,886,866
Cash and bank balances at the end of the year	14	232,197,724	214,950,268
SUPPLEMENTARY NON-CASH INFORMATION			
Right-of-use assets	11	237,189,783	2,616,426,545
Lease liabilities	11	229,784,928	2,728,001,330
Lease modification during the year	11	52,565,032	-
Depreciation on right-of use assets capitalized	11	2,343,965	-
Increase in share capital	16(a)	-	613,000,000
Re-measurement loss on employees' terminal benefits	17	2,535,391	2,227,822
Employees' terminal benefits transferred in from affiliates	17	243,833	-
Transfer of property and equipment – net	10	1,827	-

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

1. CORPORATE INFORMATION

Bin Dawood Holding Company (the "Company" or the "Parent Company") is a Saudi Joint Stock Company. The Company was initially registered as a Limited Liability Company in the Kingdom of Saudi Arabia ("KSA") under Commercial Registration number 4031063470 dated 16 Shaban 1432H (corresponding to 17 July 2011). The shareholders of the Company resolved to change the legal status of the Company from "Limited Liability Company" to "Closed Joint Stock Company". The Ministry of Commerce announced the conversion into a Closed Joint Stock Company on 16 Ramadan 1438H (corresponding to 11 June 2017). The Parent Company is fully owned by majority Saudi shareholders and minority GCC nationals, as at year end. During the year, the Company's shares became listed on the Saudi Stock Exchange (Tadawul) in the Kingdom of Saudi Arabia. The initial public offering consisted of the sale of twenty two million eight hundred and sixty thousand (22,860,000) shares representing twenty percent (20%) of the issued share capital of the Company. The legal formalities of updating the Company By-laws and Commercial Registration Certificate are completed subsequent to year end.

The registered office of the Company is located at Masjid Al Haram Road, Al Azizia District, P.O.Box 5510, Makkah 21955, Kingdom of Saudi Arabia.

The Parent Company's objective is to manage its subsidiaries and provide required support to them. It also includes acquiring the required properties and movable assets for its activities, acquire, lease and utilize industrial and commercial equity rights, patents and brand names, franchise and other abstract rights for its subsidiaries or others.

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries (see note 2.3), hereinafter referred to as (the "Group").

The Group is engaged in retail trading of foodstuff and household items, operating bakeries and restaurant for foodstuff.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

2.1 Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting and going concern concept. For employees' terminal benefits that have been based on actuarial present value calculations.

These consolidated financial statements are presented in Saudi Riyals (SR), which is also the Parent Company's functional and presentational currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

2.2 Statement of compliance

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

2.3 Basis of consolidation

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

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

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

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

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

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

2.3 Basis of consolidation (continued)

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in consolidated statement of profit or loss. Any investment retained is recognised at fair value.

These consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

Name	City of incorporation	Principle field of activity	% of capital held (directly & indirectly)	
			2020	2019
Bindawood Superstores Trading Company (A Limited Liability Company)	Makkah, Saudi Arabia	Engaged in retail trading of foodstuff and household items.	100%	100%
Danube Company for Foodstuffs and Commodities (A Limited Liability Company)	Jeddah, Saudi Arabia	Engaged in retail trading of foodstuff and household items.	100%	100%
Danube Star for Bakeries and Marketing Company (A Limited Liability Company)	Jeddah, Saudi Arabia	Wholesale of bakery and related products to commercial supermarkets	100%	100%

With effect from 1 January 2020, Danube Star for Bakeries and Marketing Company (A Limited Liability Company) acquired a fruit and vegetable division from a Group's affiliate, namely Jumairah Marketing Establishment (Fruits and Vegetables) - A Branch of Abdul Khaliq Bin Dawood Establishment. The assets and liabilities on the date of acquisition were insignificant to the Group consolidated financial statements.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that may require a material adjustment to the carrying amount of assets or liabilities in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Sensitivity analyses disclosure (note 17)
- Financial instruments risk management (note 22)
- Capital management (note 23)

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

At 31 December 2020

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

2.4 Significant accounting judgements, estimates and assumptions (continued)

Judgements (continued)

Determining the lease term of contracts with renewal and termination options – Group as lessee

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 (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Going concern

The Group's management has assessed its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Suppliers' support incentives

The Group management exercise judgment in determining whether suppliers's support incentives are considered part of the purchase price of the product in estimating the recognition of such incentives. The Group would not be entitled to incentives without purchase of goods from suppliers, and therefore highly dependent on the purchase of the products.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Information about the assumptions and estimation uncertainties is included in the following areas:

Impact of COVID-19

A novel strain of coronavirus (COVID-19) was first identified at the end of December 2019, subsequently in March 2020 was declared as a pandemic by the World Health Organization (WHO). COVID-19 continues to spread throughout in nearly all regions around the world including the Kingdom of Saudi Arabia and resulted in travel restrictions and curfew in the cities which resulted in a slowdown of economic activities and shutdowns of many sectors at global and local levels.

The extent to which coronavirus pandemic impacts the Group's business, operations, and financial results, is certain but the amount is not specified and depends on many factors and future developments, that the Group may not be able to estimate reliably during the current year. These factors include the virus transmission rate, the duration of the outbreak, precautionary actions that may be taken by governmental authorities to reduce the spread of the epidemic and the impact of those actions on economic activity, the impact to the businesses of the Group's customers and other factors.

Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, the Group's management carried out an impact assessment on the overall Group's operations, estimated its liquidity requirements and business aspects including factors like supply chain, travel restrictions, oil prices, product demand, supplier incentives etc. The Group cannot assure its assumptions used in the above estimates will be correct due to such uncertain situation. In addition, the magnitude, duration and speed of the global pandemic is uncertain. Therefore, the management has taken several steps to mitigate the effects of the pandemic, including costs reduction measures. Further, the Group's management also evaluated the cash flow situation, continuation of existing leasing contracts and the readiness of operational processes when the situation improves. However, in the view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods. As the situation is rapidly evolving with future uncertainties, the Group management will continue to assess the impact based on prospective developments.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

2.4 Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

Useful lives of property and equipment

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets and their physical wear and tear. The management reviews the residual value and useful lives annually and future depreciation charges are adjusted where the management believes the useful lives differ from previous estimates.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

Provision for stock losses

Provision is created for stock losses at branch level keeping in view various factors including actual result of stock takes, provision created for prior period and the actual sales for the period. The amount determined is provided for monthly and is adjusted for any change in factors, if required.

Defined benefit plans

The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employees' turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each year end. The most sensitive parameters are discount rate and future salary increases. In determining the appropriate discount rate, the management considers the market yield on high quality corporate/government bonds. Future salary increases are based on expected future inflation rates, seniority, promotion, demand and supply in the employment market. The mortality rate is based on publicly available mortality tables for the country. Those mortality tables tend to change only at intervals in response to demographic changes. Further details about employee benefits obligations are provided in note 17.

Suppliers' support incentives

The Group receive additional incentives, including marketing allowances from its suppliers according to the volume of purchases during the year. There are large number of suppliers with varying contractual relationships where significant judgement is required to estimate the incentives which are dependent on the Group's eligibility subject to the achievement of certain contractual conditions and a number of other factors that includes prevailing industry practices, certain promotional activities, continuing supplier relationship, as well as the Group's business performance during the year in terms of annual sales. Such incentives are recognized in accordance with the contracts signed with suppliers and involves estimates that reflect the amount the Group expect to realize based on the on the estimated value of the supplier support incentives.

Impairment of trade receivables

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

Leases - Estimating the incremental borrowing rate

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.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently in the preparation of these consolidated financial statements, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective except for amendments to IFRS 16 Covid-19 Related Rent Concessions; the impact of which is disclosed in notes 4.5 and 11.

3.1 Current versus non-current classification

Assets

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

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

All other assets are classified as non-current.

Liabilities

A liability is current when:

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

The Group classifies all other liabilities as non-current.

3.2 Revenue recognition

The Group is in business of the retail trading of foodstuff and household items. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Sale of goods

Revenue is income arising from the sale of goods in the ordinary course of the Group's activities, net of value added taxes. Revenue from sale of goods is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the goods (commonly at the store checkout for the sales via the Group's stores). Revenue from sale of goods is recorded at the fair value of consideration received or receivable, net of returns and allowances and trade discounts.

The products on sale in the Group's stores are sold with a right of return and the return period is limited based on the Group's general conditions of sale.

IFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to the contracts with their customers. The Standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Other operating income

The Group leases out various shops situated within its supermarkets and hypermarkets under operating lease agreements. Rental income is recognized on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

3.3 Foreign currencies

Transactions in foreign currencies are initially recorded by the Group in its functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to the consolidated statement of profit or loss and other comprehensive income.

At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item.

3.4 Expenses

Cost of revenue

Cost of revenue includes the direct costs incurred to bring the goods in the saleable condition. Rebates, compensation, other incentives and earned benefits from supplier (collectively referred to as “suppliers’ support”) are recognized when earned by the Group; which occurs when all obligations to earn suppliers’ support have been discharged and can be measured reliably. The suppliers’ support are recognized as a credit within cost of sales. The disclosures of significant accounting judgements, estimates and assumptions are provided in note 2.4.

The suppliers’ support relating to inventories which are held by the Group at the reporting date is recognized in cost of sales upon sale of those inventories.

Amounts due relating to suppliers’ support are recognized within trade and other receivables, except in cases where the Group currently has a legally enforceable right of set-off and intends to offset amounts due from suppliers against amounts owed to those suppliers, in which case only the net amount receivable or payable is recognized.

Selling and distribution expenses

These include any costs incurred to carry out or facilitate selling activities of the Group. These costs typically include salaries of the sales staff, marketing, distribution and logistics expenses. For the purpose of presentation, all promotional income which comprises of income earned from promotion of various products within the Group 's retail stores are netted off with selling and distribution expenses.

General and Administrative expenses

These pertain to operation expenses which are not directly related to the sale of any goods or services. These also include allocations of general overheads which are not specifically attributed to cost of revenue or selling and distribution expenses. Allocation of overheads between cost of revenue, selling and distribution expenses, and general and administration expenses, where required, is made on a consistent basis.

3.5 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other income in the consolidated statement of profit or loss and other comprehensive income.

Subsequent costs

The cost of replacing a part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in the consolidated statement of profit or loss and other comprehensive income as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Property and equipment (continued)

Depreciation

Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively, if required. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

• Equipments	3 - 10 years
• Motor vehicles	7.5 - 10 years
• Furniture and fixtures and leasehold improvements	5 - 10 years
• Computer	3 years

Capital work in progress

Capital work in progress represents assets under construction and improvements to the existing assets, recorded at cost less accumulated impairment losses, if any. Such costs include cost of equipment, material and other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work in progress is not depreciated. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property and equipment category and is accounted for in accordance with the Group's policies.

3.6 Intangible assets

The intangible assets represent the cost incurred on software used by the Group for its reporting and accounting system. The intangible acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in consolidated statement of profit or loss and other comprehensive income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss and other comprehensive income in the expense category that is consistent with the function of the intangible assets.

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

Intangible assets are amortized over a period of 3 years using straight line method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

Leases are recognised as right-of-use assets along with their corresponding liabilities at the date of which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is recognized in the consolidated statement of income over the lease term. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Retail outlets - 5 to 25 years; and
- Employee accommodation - 1 to 8 years.

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

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs, if applicable.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment, refer note 3.11.

Lease liabilities

At the commencement date of the lease, the Group recognises 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 recognised as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

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 remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Adoption of IFRS 16

Upon adoption of IFRS 16 on 1 January 2019, the Group applied a single recognition and measurement approach for all leases in which it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets under lease arrangements. As of 1 January 2019, the Group has recognized SR 2,588.2 million of right-of-use assets and SR 2,700.8 million of lease liabilities and derecognized prepaid rent of SR 11 million and lease equalisation liability of SR 123.6 million (see note 11).

Short-term leases and leases of low-value assets

Short-term leases are leases with a lease term of 12 months or less. Low value assets are items that do not meet the Group's capitalisation threshold and are considered to be insignificant for the consolidated statement of financial position for the Group as a whole. Payments for short-term leases and leases of low value assets are recognised on a straight-line basis in the consolidated statement of profit or loss.

Variable lease payments

Some leases contain variable payments that are linked to the usage/performance of the leased asset. Such payments are recognised in consolidated statement of profit or loss.

At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Inventories

Inventories, which represents goods held for resale, are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs to sell. The cost of inventories comprises all costs of purchase, and other costs incurred in bringing the inventories to their existing location and condition. Cost of inventories is determined using weighted average method.

3.9 Cash and bank balances

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand which are subject to an insignificant risk of changes in value.

3.10 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in following categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes cash and bank balances, trade receivables, employees' receivables and other receivables.

Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Financial Instruments (continued)

Financial assets (continued)

Subsequent measurement (continued)

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. Currently, the Group does not have any equity instrument designated at fair value through OCI.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income. Currently, the Group does not have any financial assets designated at fair value through profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Financial Instruments (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, borrowings or payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include accounts payable, accruals and other liabilities and due to related parties.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as, described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss and other comprehensive income. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Accounts payable, accruals and other liabilities

This category is relevant to the Group. After initial recognition, account payable and other liabilities are subsequently measured at amortised cost.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

3.11 Impairment of financial and non-financial assets

Financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Impairment of financial and non-financial assets (continued)

Non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The fair value less costs of disposal is determined by taking into account recent market transactions. If no such transactions can be identified, an appropriate valuation model is used. The value in use is assessed by discounting the estimated future cash flows 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. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGU (group of units) on a pro rata basis.

3.12 Employees' benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post-employment benefits

The Group's obligation under employee end of service benefit is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Re-measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in employee costs in the consolidated statement of profit or loss and other comprehensive income.

3.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss and other comprehensive income, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.14 Cash dividend

The Group recognises a liability to make cash distribution to equity holders of the Parent Company when the distribution is authorised and the distribution is no longer at the discretion of the Group. Distribution authorization is assessed in line with the Companies' By-laws, of which a distribution is authorised when approved by the shareholders. A corresponding amount is recognised directly in equity. Interim dividends, if any, are recorded when approved by the Board of Directors.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Zakat

The Group is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (“GAZT”). Zakat is provided for in accordance with the Saudi Arabian fiscal regulations. Provision for zakat is charged to the consolidated statement of profit or loss and other comprehensive income.

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective except for note 4.5.

4.1 Amendments to IFRS 3: *Definition of a Business*

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

4.2 Amendments to IFRS 7, IFRS 9 and IAS 39: *Interest Rate Benchmark Reform*

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

4.3 Amendments to IAS 1 and IAS 8: *Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

4.4 Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

4.5 Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. The Group has early adopted above amendment and applied the practical expedient as a result, elected not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. These amendments have no cumulative effect as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the Group first applies the amendment. The Group has disclosed the impact during the year in note 11 to the consolidated financial statements.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

5.1 IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

5.2 Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments are not expected to have an impact on the Group.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

5.3 Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have an impact on the Group.

5.4 Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

5.5 Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and is not expected to have any impact on the Group.

5.6 IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have any impact on the Group.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

5.7 IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have any impact on the Group.

5.8 IAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not applicable to the Group.

6. SEGMENT INFORMATION

The Group is solely engaged in retail trading of consumer goods and operates completely within the Kingdom of Saudi Arabia.

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-maker (CODM). The CODM has been identified as the Board of Directors, as this makes the key operating decisions of the Group and is responsible for allocating resources and assessing performance.

Key internal reports received by the CODM, primarily the management accounts, focus on the performance of the Group as a whole. The operations of all elements of the business are driven by the retail sales environment and hence have fundamentally the same economic characteristics. All operational decisions made are focused on the performance and growth of the retail outlets and the ability of the business to meet the supply demands of the stores.

The Group has considered the overriding core principles of IFRS 8 ‘Operating segments’ as well as its internal reporting framework, management and operating structure. The Directors’ conclusion is that the Group has one operating segment, that of retailing.

Performance is measured by the CODM based on profit before zakat as reported in the management accounts. Management believes that this measure is the most relevant in evaluating the results of the Group. In addition, assets and segment liabilities are neither included in the internal management reports nor provided regularly to the management.

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

7. SELLING AND DISTRIBUTION EXPENSES

	<i>31 December</i> <i>2020</i> <i>SR</i>	<i>31 December</i> <i>2019</i> <i>SR</i>
Employee costs	366,424,987	366,960,677
Depreciation on leased assets (note 11(c))	263,355,305	256,139,570
Depreciation (note 10(b))	159,740,631	155,274,881
Utilities	90,682,190	99,728,176
Packaging cost	30,172,897	34,855,920
Repairs and maintenance	19,682,499	16,008,025
Advertising cost	12,385,873	12,582,920
Rent	10,264,732	9,363,604
Other	49,838,389	55,874,596
	<u>1,002,547,503</u>	<u>1,006,788,369</u>

8. GENERAL AND ADMINISTRATION EXPENSES

	<i>31 December</i> <i>2020</i> <i>SR</i>	<i>31 December</i> <i>2019</i> <i>SR</i>
Employee costs	126,112,041	99,446,243
Depreciation (note 10(b))	5,100,682	4,213,880
Depreciation on leased asset (note 11 (c))	3,120,578	3,175,114
Repairs and maintenance	4,599,802	4,330,143
Insurance	2,879,595	2,258,615
Rents	989,452	1,157,990
Utilities	1,004,254	1,490,394
Directors' remuneration (note 15)	1,096,709	1,500,000
Other	19,105,395	13,301,582
	<u>164,008,508</u>	<u>130,873,961</u>

9. EARNINGS PER SHARE

The earnings per share calculation is given below:

	<i>31 December</i> <i>2020</i> <i>SR</i>	<i>31 December</i> <i>2019</i> <i>SR</i>
Profit for the year	447,721,992	419,136,319
Number of ordinary shares	114,300,000	53,000,000
Effect of capitalisation (refer note 16(a))	-	61,300,000
Weighted average number of ordinary shares for basic and diluted EPS	114,300,000	114,300,000
Earnings per share – basic and diluted	3.92	3.67

There has been no item of dilution affecting the weighted average number of ordinary shares.

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

10. PROPERTY AND EQUIPMENT

	<i>Equipment</i> SR	<i>Motor vehicles</i> SR	<i>Furniture, fixtures and leasehold improvements</i> SR	<i>Computers</i> SR	<i>Capital work in progress (note (a) below)</i> SR	<i>Total 31 December 2020</i> SR
Cost:						
At the beginning of the year	865,535,788	54,499,441	793,843,766	62,605,648	115,442,522	1,891,927,165
Additions	14,255,794	4,828,734	709,705	3,674,898	22,277,310	45,746,441
Disposals	(4,742,007)	(598,834)	(2,668,525)	(4,900)	-	(8,014,266)
Transfers from / (to) its affiliate	49,170	446,825	19,622	-	-	515,617
Transfers from CWIP	55,093,368	-	46,398,503	2,890,884	(104,382,755)	-
At the end of the year	<u>930,192,113</u>	<u>59,176,166</u>	<u>838,303,071</u>	<u>69,166,530</u>	<u>33,337,077</u>	<u>1,930,174,957</u>
Depreciation:						
At the beginning of the year	469,167,560	39,967,877	385,705,520	56,687,362	-	951,528,319
Charge for the year	84,906,182	2,621,347	72,055,440	5,865,594	-	165,448,563
Relating to disposals	(3,782,425)	(513,063)	(2,588,887)	(4,897)	-	(6,889,272)
Transfers from / (to) its affiliate	48,066	446,925	18,799	-	-	513,790
At the end of the year	<u>550,339,383</u>	<u>42,523,086</u>	<u>455,190,872</u>	<u>62,548,059</u>	<u>-</u>	<u>1,110,601,400</u>
Net book value:						
At 31 December 2020	<u>379,852,730</u>	<u>16,653,080</u>	<u>383,112,199</u>	<u>6,618,471</u>	<u>33,337,077</u>	<u>819,573,557</u>

a) Capital work in progress mainly represents the cost of setting up new retail outlets and the improvements and upgrades of existing ones. During the year, certain retail outlets were completed and transferred to relevant category of assets.

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

10. PROPERTY AND EQUIPMENT (continued)

	<i>Equipment</i> SR	<i>Motor vehicles</i> SR	<i>Furniture, fixtures and leasehold improvements</i> SR	<i>Computers</i> SR	<i>Capital work in progress</i> SR	<i>Total 2019</i> SR
Cost:						
At the beginning of the year	844,732,930	55,356,056	757,225,877	60,603,012	148,267,027	1,866,184,902
Additions	12,424,923	2,193,846	5,301,454	701,563	20,831,373	41,453,159
Disposals	(7,192,802)	(2,987,800)	(231,204)	-	-	(10,411,806)
Written-off	(5,236,429)	(62,661)	-	-	-	(5,299,090)
Transfers from CWIP	29,582,030	-	22,772,775	1,301,073	(53,655,878)	-
Transfers	(8,774,864)	-	8,774,864	-	-	-
At the end of the year	<u>865,535,788</u>	<u>54,499,441</u>	<u>793,843,766</u>	<u>62,605,648</u>	<u>115,442,522</u>	<u>1,891,927,165</u>
Depreciation:						
At the beginning of the year	401,155,429	40,488,960	310,751,929	48,663,121	-	801,059,439
Charge for the year	77,607,792	2,312,329	72,149,376	8,024,241	-	160,093,738
Relating to disposals	(2,009,384)	(2,770,753)	(126,997)	-	-	(4,907,134)
Relating to written-off	(4,655,065)	(62,659)	-	-	-	(4,717,724)
Transfers	(2,931,212)	-	2,931,212	-	-	-
At the end of the year	<u>469,167,560</u>	<u>39,967,877</u>	<u>385,705,520</u>	<u>56,687,362</u>	<u>-</u>	<u>951,528,319</u>
Net book value:						
At 31 December 2019	<u><u>396,368,228</u></u>	<u><u>14,531,564</u></u>	<u><u>408,138,246</u></u>	<u><u>5,918,286</u></u>	<u><u>115,442,522</u></u>	<u><u>940,398,846</u></u>

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

10. PROPERTY AND EQUIPMENT (continued)

b) Depreciation charge has been allocated as follows:

	<i>31 December</i> 2020 SR	<i>31 December</i> 2019 SR
Cost of sales	607,250	604,977
Selling and distribution expenses (note 7)	159,740,631	155,274,881
General and administration expenses (note 8)	5,100,682	4,213,880
	<u>165,448,563</u>	<u>160,093,738</u>

11. LEASES

The Group has lease contracts for various assets used in its operations. Leases of retail outlets and employee accommodation generally have lease terms between 5 to 25 years and 1 to 8 years, respectively. The Group's obligations under its leases are secured by the lessor's title to the leased assets. The Group also has certain leases of accommodation buildings with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. There are several lease contracts that include extension and termination options and variable lease payment.

a) Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	<i>Retail outlets</i> SR	<i>Employee accommodation</i> SR	<i>Total</i> SR
As at 1 January 2019	2,471,484,538	116,758,080	2,588,242,618
Additions	28,183,927	-	28,183,927
Depreciation expense (see note "c" below)	(244,503,499)	(15,091,341)	(259,594,840)
	<u>2,255,164,966</u>	<u>101,666,739</u>	<u>2,356,831,705</u>
As at 1 January 2020	2,255,164,966	101,666,739	2,356,831,705
Additions	231,530,335	5,659,448	237,189,783
Termination (see note "f" below)	(48,977,801)	(22,013,152)	(70,990,953)
Lease modification during the year (see note "g" below)	52,565,032	-	52,565,032
Depreciation expense (see note "c" below)	(255,809,180)	(13,305,754)	(269,114,934)
	<u>2,234,473,352</u>	<u>72,007,281</u>	<u>2,306,480,633</u>

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

11. LEASES (continued)

b) Set out below are the carrying amounts of lease liabilities and the movements during the year:

	<i>31 December</i> <i>2020</i> <i>SR</i>	<i>31 December</i> <i>2019</i> <i>SR</i>
As at 1 January	2,518,438,495	2,700,817,403
Additions	229,784,928	27,183,927
Termination (see note "f" below)	(75,653,190)	-
Covid-19 related rent concessions (see note "e" below)	(27,598,291)	-
Accretion of interest	96,329,767	95,858,849
Payments	(268,599,477)	(305,421,684)
Lease modification during the year (see note "g" below)	52,565,032	-
As at 31 December	2,525,267,264	2,518,438,495
Less: Current portion	260,064,477	220,994,425
Non-current	2,265,202,787	2,297,444,070

The following are the amounts recognised in profit or loss:

	<i>31 December</i> <i>2020</i> <i>SR</i>	<i>31 December</i> <i>2019</i> <i>SR</i>
Depreciation expense of right-of-use assets	266,770,969	259,594,840
Interest expense on lease liabilities (see note "d" below)	96,329,767	95,858,849
Covid-19 related rent concessions (see note "e" below)	(27,598,291)	-
Expense relating to short-term leases	4,076,893	4,010,853
Variable lease payments	2,253,697	1,776,241
Total amount recognised in consolidated statement of profit or loss	341,833,035	361,240,783

c) The depreciation expense of right-of-use assets for the year has been allocated as follows:

	<i>31 December</i> <i>2020</i> <i>SR</i>	<i>31 December</i> <i>2019</i> <i>SR</i>
Cost of revenue	295,086	280,156
Selling and distribution expenses (note 7)	263,355,305	256,139,570
General and administrative expenses (note 8)	3,120,578	3,175,114
Capitalization in property and equipment	2,343,965	-
	269,114,934	259,594,840

d) The finance cost on lease liabilities of SR 0.059 million (2019: SR 0.058 million) has allocated through cost of revenue.

The Group had total cash outflows for leases of SR SR 268.6 million (2019: SR 305.4 million) in 2020 which includes payment of principal portion of lease liabilities amounting to SR 199.9 million (2019: SR 209.6 million). The Group also had non-cash additions to right-of-use assets and lease liabilities of SR 237.2 million and SR 229.8 million respectively (2019: SR 28.2 million and SR 27.2 million) in 2020. The future cash outflows relating to leases that have not yet commenced are disclosed in note 20.

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

11. LEASES (continued)

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

The maturity analysis of lease liabilities are disclosed in note 22.

- (e) The Group has applied the practical expedient to all rent concessions that meet the conditions prescribed in the amendment to IFRS 16 issued in May 2020 (see note 4.5). The Group has recognised an amount of SR 27.5 million in consolidated statement of profit or loss for the year ended 31 December 2020 as changes in lease payments. This change of lease payment has been accounted for as a negative variable lease expense and netted with finance cost on lease liabilities presented in the consolidated statement of profit or loss.
- (f) During the year, net termination gain of SR 4.7 million (2019: Nil) has been included under other income presented in the consolidated statement of profit or loss and other comprehensive income.
- (g) The modification relates to a lease contract whereby, in addition to the extension of lease period to 2034, the annual rental charge has increased prior to the expiry of the lease contract.

12. INVENTORIES

	<i>31 December</i> <i>2020</i> <i>SR</i>	<i>31 December</i> <i>2019</i> <i>SR</i>
Finished goods	985,759,799	904,094,710
Raw materials	7,790,364	5,427,095
Packing material	6,717,485	9,462,003
	<u>1,000,267,648</u>	<u>918,983,808</u>

Inventories costing amounting to SR 3,460.5 million (31 December 2019: SR 3,138.2) is charged to cost of revenue during the year ended 31 December 2020. Further, an amount of SR 28.8 million (31 December 2019: SR 68.5 million) was recognised as an expense for the write-down of inventories.

13. ACCOUNT RECEIVABLES AND PREPAYMENTS

a) *Financial assets*

	<i>31 December</i> <i>2020</i> <i>SR</i>	<i>31 December</i> <i>2019</i> <i>SR</i>
Trade accounts receivable	181,727,403	75,359,793
Employee advances	9,040,114	7,178,391
Other receivables	141,845,099	145,428,717
	<u>332,612,616</u>	<u>227,966,901</u>

As at 31 December 2020 and 31 December 2019, none of the trade receivables of the Group were impaired. Further, none of the receivables of the Group were past due, more than normal collection cycle. Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured.

b) *Non-financial assets*

	<i>31 December</i> <i>2020</i> <i>SR</i>	<i>31 December</i> <i>2019</i> <i>SR</i>
Prepayments	52,989,206	44,864,591
Advances to suppliers	25,361,887	39,384,603
	<u>78,351,093</u>	<u>84,249,194</u>

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

14. CASH AND BANK BALANCES

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Cash in hand	9,563,000	10,249,624
Bank balances	222,634,724	204,700,644
	232,197,724	214,950,268

At each reporting date, all bank balances are assessed to have low credit risk as they are held with reputable and high credit rating institutions and there has been no history of default with any of the Group's bank balance. Therefore, the probability of default based on forward looking factors and any loss given defaults are considered to be negligible.

15. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent the shareholders, and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Following is the list of related party transactions and balances of the Group. In addition to an indemnity received from one of the shareholders of the Company, the following are the details of major related party transactions during the year:

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transactions</i>	
		<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
			<i>"Restated"</i>
Affiliates	Purchase of goods	(41,566,567)	(78,964,675)
	Lease payments (principal and finance cost)	(69,783,800)	(68,857,000)
	Rent charged to affiliates	1,376,600	1,416,600
	Goods transferred to affiliates	741,108	2,180,810
	Shared service fee charged to affiliates	2,000,000	-
	Online sales commission charged by affiliate	(7,118,957)	-
	Online advertisement charged by affiliate	(13,108,929)	-
	Property and equipment transferred from affiliates – net (note 10)	1,827	-
	Employees' terminal benefits transferred in (note 17)	243,833	-

As mentioned in note 2, the assets and liabilities of a division of an affiliate were acquired by a subsidiary of the Company with a net book value amounting to nil.

The lease liabilities as disclosed in note 11, as at 31 December 2020, include an amount of SR 396.8 million which relates to lease arrangements entered by the Group with its related parties.

During the three-month period ended 30 September 2020, the Parent Company (directly and through its subsidiaries) advanced funds of SR 283.4 million to related parties which were repaid to the Group before period ended 30 September 2020.

Key management compensation

Compensation for key management is as follows:

		<i>Transactions for the year ended</i>	
		<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Directors	Board of Directors' remuneration (note 8)	1,096,709	1,500,000
Key management Personnel (*)	Salaries and other benefits	55,926,160	28,794,764
	End of service benefits	4,174,195	1,191,370
		61,197,064	31,486,134

*Includes an amount of SR 11.7 million (2019: Nil), which is variable, approved by the Board of Directors.

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

15. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

As at 31 December 2020, the outstanding amount due to key management personnel was SR 0.7 million (31 December 2019: SR 1 million).

	<i>31 December</i> <i>2020</i> <i>SR</i>	<i>31 December</i> <i>2019</i> <i>SR</i>
<i>Due to related parties</i>		
Safa Company Limited for Household Ware	8,029,340	8,874,780
Jumairah Marketing Establishment (Fruits and Vegetables) - A Branch of Abdul Khaliq Bin Dawood Establishment	-	562,114
Jumairah Marketing Establishment (Delsey) - A Branch of Abdul Khaliq Bin Dawood Establishment	1,338,730	1,613,639
Jumairah Marketing Establishment (Toys) - A Branch of Abdul Khaliq Bin Dawood Establishment	939,870	1,065,324
Etre Trading Establishment - A Branch of Abdul Khaliq Bin Dawood Establishment	3,119,353	270,895
International Application Company Limited	3,503,315	-
	16,930,608	12,386,752

The Group has restated its disclosure of related party transactions and balances with respect to lease liabilities with related parties and included the following as part of its related party disclosure:

The lease liabilities as disclosed in note 11, as at 31 December 2019, includes an amount of SR 399,785,758 which relates to lease arrangements entered by the Group with its related parties. The rent charged by affiliates of SR 68,857,000 for the year ended 31 December 2019 represents lease payments (principal and finance cost) during the year.

16. EQUITY

(a) Share capital

As at 31 December 2020 and 31 December 2019, the share capital of the Parent Company is divided into 114,300,000 shares of SR 10 each.

During the year, the Company's shares became listed on the Saudi Stock Exchange (Tadawul) in the Kingdom of Saudi Arabia. The initial public offering consisted of the sale of twenty two million eight hundred and sixty thousand (22,860,000) shares representing twenty percent (20%) of the issued share capital of the Company. The legal formalities of updating the Company By-laws and Commercial Registration Certificate are completed subsequent to year end.

During the year ended 31 December 2019, the shareholders of the Company resolved in Extraordinary General Assembly meeting held on 8 Rabi II 1441 (corresponding to 5 December 2019) to increase the Company's share capital from SR 530,000,000 to SR 1,143,000,000 through the transfer of SR 483,879,538 from the account of "retained earnings" and SR 129,120,462 from the account of "statutory reserve".

(b) Statutory reserve

In accordance with the Parent Company's By-laws, the Parent Company must set aside 10% of its net income in each year to a statutory reserve until the reserve equals 30% of the capital. The reserve is not available for distribution.

(c) Dividends

The Board of Directors of the Company have approved an interim dividend of SR 90 million (SR 0.79 per share with total number of 114,300,000 shares) (31 December 2019: SR 245 million (SR 2.14 per share with total number of 114,300,000 shares) which has been paid in cash during the year.

Further, on 9 November 2020 (corresponding to 23 Rabi' I 1442H), the Board of Directors of the Company have approved an interim dividend of SR 228.6 million (SR 2 per share with total number of 114,300,000 shares) which has been paid in cash during the year. The eligibility of dividend was for the shareholders who owned shares of the Company on 19 November 2020, and were registered with the Securities Depository Center Company at the end of the second trading day following the date of eligibility.

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

17. EMPLOYEES' TERMINAL BENEFITS

General description of the plan

The Group operates an unfunded employees' end of service benefits plan ("EOSB") for its employees as required by the Saudi Arabian Labor Law. The movement in EOSB for the year ended is as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Balance at the beginning of the year	91,886,141	80,227,125
Transfer from affiliate (refer note 2)	243,833	-
<i>Included in profit or loss</i>		
Current service cost	14,632,870	13,029,747
Interest cost	2,914,384	2,697,763
	17,547,254	15,727,510
<i>Included in other comprehensive loss</i>		
Actuarial loss	2,535,391	2,227,822
Benefits paid	(7,630,625)	(6,296,316)
Balance at the end of the year	104,581,994	91,886,141

Allocation of end of service expense (current service cost and finance cost) between cost of revenue, selling and distribution expenses and general and administration expenses is as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Cost of revenue	600,806	692,363
Selling and distribution expenses	12,250,025	9,836,543
General and administrative expenses	4,696,423	5,198,604
	17,547,254	15,727,510

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

17. EMPLOYEES' TERMINAL BENEFITS (continued)

Actuarial assumptions

The following were the principal actuarial assumptions applied at the reporting date:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Discount rate	2.6%	3.3%
Future salary growth/ expected rate of salary increase (%)	2.0%	2.8%
Retirement age	60 years	60 years

The quantitative sensitivity impact analysis for principal assumptions is as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Discount rate:		
+0.50% increase	(3,635,012)	(3,912,417)
-0.50% decrease	3,734,327	2,915,929
Salary increase rate:		
+0.50% increase	3,733,055	3,168,555
-0.50% decrease	(3,546,486)	(3,918,037)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

The weighted average duration of the defined benefit obligation is 7 years (2019: 9.4 years).

The following is the breakup of the actuarial loss:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Financial assumptions	2,765,763	-
Demographic assumptions	(27,051)	-
Experience adjustments	(203,321)	2,227,822
	<u>2,535,391</u>	<u>2,227,822</u>

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

17. EMPLOYEES' TERMINAL BENEFITS (continued)

The following undiscounted payments are expected to the defined benefit plan in future years:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Within the next 12 months (next annual reporting period)	10,720,397	11,205,616
Between 1 and 5 years	70,884,787	38,898,049
Between 5 and 10 years	108,362,829	79,198,487
Total expected payments	<u>189,968,013</u>	<u>129,302,152</u>

18. ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

a) Financial liabilities

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Trade accounts payable	642,134,900	732,121,532
Accrued and other liabilities	114,072,398	151,503,190
	<u>756,207,298</u>	<u>883,624,722</u>

b) Non-financial liabilities

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Unearned income	186,541	12,563,294
Other payable	36,163,341	22,755,896
	<u>36,349,882</u>	<u>35,319,190</u>

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

19. ZAKAT

The Parent Company has obtained an approval from GAZT for the consolidated filing of zakat return from the year ended 2016 onwards. Accordingly, zakat is assessed on consolidated basis effective from 2016.

Charge for the year

The zakat charge consists of:

	<i>31 December</i> 2020 SR	<i>31 December</i> 2019 SR
Provision for the year	15,477,223	10,993,996
Adjustment for prior year	(294,740)	198,346
	<u>15,182,483</u>	<u>11,192,342</u>

The provision is based on the following:

	<i>31 December</i> 2020 SR	<i>31 December</i> 2019 SR
Equity	867,753,241	769,444,744
Opening provision and other adjustments	86,446,066	80,227,125
Book value of non-current assets	(819,740,207)	(940,591,979)
	<u>134,459,100</u>	<u>(90,920,110)</u>
Zakatable income for the year	<u>480,451,729</u>	<u>439,759,855</u>
Zakat base	<u>614,910,829</u>	<u>439,759,855</u>

The movement in the zakat provision for the year is as follows:

	<i>31 December</i> 2020 SR	<i>31 December</i> 2019 SR
Balance at the beginning of the year	15,565,314	6,571,747
Charge for the year	15,182,483	11,192,342
Payments during the year	(13,374,764)	(2,198,775)
At the end of the year	<u>17,373,033</u>	<u>15,565,314</u>

c) Status of assessments

The subsidiaries along with the Parent Company have filed its zakat declaration on a standalone basis until the year ended 31 December 2015. From 2016 onwards, the Parent Company started filing the consolidated zakat declarations for all wholly owned subsidiaries. Consolidated zakat declaration together with the information declarations for wholly owned subsidiaries for the years ended 31 December 2016 through 2019 has already been submitted. The Parent Company has also obtained the zakat certificate until 31 December 2019.

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

19. ZAKAT (continued)

c) *Status of assessments (continued)*

Parent Company

Bin Dawood Holding Company — *A Saudi Joint Stock Company*

The Parent Company has filed zakat declarations with the General Authority for Zakat and Tax (GAZT) for the period ended 31 December 2011 and for the years ended 31 December 2012 through 2019 and obtained zakat certificate. During the year, the Parent Company has finalized the zakat assessments for the period ended 31 December 2011 and for the years ended 31 December 2012 through 2018 with the GAZT by paying an additional zakat liability of SAR 2,512,710.

The Group has identified a potential exposure concerning the application of fiscal regulations relating to one of the shareholders of the Parent Company. The Group has secured a formal indemnity letter from the respective shareholder to compensate the Group against obligation that may arise in future.

Subsidiaries

Bindawood Superstores Trading Company — A Limited Liability Company:

During the year, the subsidiary has finalized the assessment for the years ended 31 December 2012 through 2015 with the GAZT by paying an additional zakat liability of SAR 895,341. Accordingly, all the years until 31 December 2015 has been finalized with the GAZT.

Danube Company for Foodstuffs and Commodities – A Limited Liability Company:

During the year ended 31 December 2018, the GAZT issued the revised assessment for the years 2010 through 2013 showing an additional liability of SR. 2,457,017. The subsidiary's management has finalized the aforementioned revised assessment with the GAZT by paying an additional zakat liability of SAR 1,774,985.

During the year, the subsidiary has finalized the assessments for the years ended 31 December 2014 & 2015 with the GAZT by paying an additional zakat liability of SAR. 907,983. Accordingly, all years until 31 December 2015 has been finalized with the GAZT.

Danube Star for Bakeries and Marketing Company – A Limited Liability Company:

During the year, the subsidiary has finalized the assessments for the years ended 31 December 2010 through 2015 with the GAZT by paying an additional zakat liability of SAR. 285,839. Accordingly, all years until 31 December 2015 has been finalized with the GAZT.

20. CONTINGENCIES AND COMMITMENTS

The Group has outstanding letters of credit to import goods amounting to SR 9.87 million as at 31 December 2020 (31 December 2019: SR 15.92 million) and outstanding letters of guarantee amounting to SR 1.79 million at 31 December 2020 (31 December 2019: SR 2.35 million).

At 31 December 2020, the Group has future capital commitments amounting to nil (31 December 2019: SR 5.22 million). Further the Group has annual lease commitments totaling SR 6.52 million (31 December 2019: SR 11.94 million) relating to branch rentals.

The Parent Company and its subsidiaries namely Bindawood Superstores Trading Company Limited (A Limited Liability Company), Danube Company for Foodstuffs and Commodities (A Limited Liability Company) and Danube Star for Bakeries and Marketing Company (A Limited Liability Company) have provided corporate guarantees amounting to SR 453.5 million (31 December 2019: SR 538.50 million) to local banks in respect of banking facilities obtained within the Group.

21. FAIR VALUE MEASUREMENT

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

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

At 31 December 2020

21. FAIR VALUE MEASUREMENT (continued)

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

As at 31 December 2020 and 31 December 2019, the fair values of the Group's financial instruments are estimated to approximate their carrying values.

During the year ended 31 December 2020 and 31 December 2019, there were no movements between the levels.

22. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Group's principal financial liabilities comprise of due to related parties and accounts payable, accruals and other liabilities. The Group has financial assets such as trade receivables, other receivables and cash and bank balances. The Group's financial assets and liabilities arise directly from its operations.

The Group's activities expose it to a variety of financial risks: market risk (including commission rate risks, currency risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Group's financial performance.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and other price risk, such as equity price risk and commodity risk. The Group is not exposed to other price risk such as equity risk and commodity risk as the Group is neither involved in investment in trading securities nor the commodities.

Commission rate risk

Commission rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates on the Group's financial position and cash flows. The Group manages the commission rate risk by regularly monitoring the commission rate profiles of its commission bearing financial instruments. There are no commission bearing financial assets and liabilities at the reporting date and therefore there is no commission rate sensitivity as at the year end.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group is subject to fluctuation in foreign exchange rates in normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyal, Euros and US Dollar. Accounts payable and accruals include an amount of SR 7.32 million (31 December 2019: SR 20.14 million) due in Euros. As the Saudi Riyal is pegged to the US Dollar, therefore balances in foreign currency are not considered to represent significant foreign currency risk.

Bin Dawood Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

22. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Credit Risk

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk on bank balances, trade receivables and other receivables is limited as cash balances held with banks with sound credit ratings and the trade receivables and other receivables are shown net of allowance for impairment.

The Group manages credit risk with respect to receivables from customers by monitoring in accordance with defined policies and procedures. Before accepting any credit customers, the Group has its own credit policy to assess the potential customer's credit quality and defines the credit limits for the new customer. These policies are reviewed and updated regularly. Moreover, the Group seeks to manage the credit risk by monitoring outstanding receivables on an ongoing basis.

The Group is exposed to credit risk on its bank balances, trade receivables and other receivables as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Financial assets		
Trade and other receivables	332,612,616	227,966,901
Bank balances	222,634,724	204,700,644
	555,247,340	432,667,545

The carrying amount of financial assets represents the maximum credit exposure.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. For instance, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowings or reliance on a particular market in which to realize liquid assets. The following is the contractual undiscounted maturity analysis of the financial liabilities of the Group. The Group does not hold financial assets for managing liquidity risk. Hence, these risks have not been considered for maturity analysis.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

31 December 2020	<i>Within 1 year SR</i>	<i>Next 5 years SR</i>	<i>More than 6 years SR</i>	<i>Total SR</i>
Lease liabilities	329,768,266	1,405,605,396	1,398,456,474	3,133,830,136
Accounts payable	642,134,900	-	-	642,134,900
	971,903,166	1,405,605,396	1,398,456,474	3,775,965,036
			<i>More than 6 years SR</i>	<i>Total SR</i>
31 December 2019	<i>Within 1 year SR</i>	<i>Next 5 years SR</i>		
Lease liabilities	311,592,279	1,500,085,430	1,343,347,351	3,155,025,060
Accounts payable	732,121,532	-	-	732,121,532
	1,043,713,811	1,500,085,430	1,343,347,351	3,887,146,592

At 31 December 2020

23. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximize partner's value.

For the purpose of the Group's capital management, capital includes issued capital, statutory reserve and retained earnings attributable to the equity holders of the Group. The primary objective of the Group's capital management is to maximize the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2020 and 31 December 2019. Equity comprises share capital, statutory reserve and retained earnings and is measured at SR 1,312.9 Million (31 December 2019: SR 1,186.4 Million).

24. PRESENTATION AND RECLASSIFICATION

- a) An amount of SR 32.3 million have been reclassified from "Trade and other receivables" to "Prepayments and advances" in the prior year's consolidated financial statements to enhance comparability with the current year's consolidated financial statements. Such reclassification do not have any impact on profit or total equity.
- b) Certain other immaterial reclassifications have also been made to the prior year's consolidated financial statements to enhance comparability with the current year's consolidated financial statements.

25. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been approved by the Board of Directors on 28 March 2021, corresponding to 15 Sha'aban 1442H.