

SAUDI COMPANY FOR HARDWARE
(A SAUDI JOINT STOCK COMPANY)

**UNAUDITED CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE THREE MONTH AND
NINE MONTH PERIODS ENDED SEPTEMBER 30, 2021
AND REPORT ON REVIEW OF FINANCIAL STATEMENTS**

**SAUDI COMPANY FOR HARDWARE
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2021**

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders of Saudi Company for Hardware
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Saudi Company for Hardware (the "Company") and its subsidiary (collectively referred to as "the Group") as at September 30, 2021 and the related condensed consolidated interim statement of comprehensive income for the three month and nine month periods ended September 30, 2021 and the condensed consolidated interim statements of changes in equity and cash flows for the nine month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34"), as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", as endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

By: 

Bader I. Benmohareb
License Number 471

November 10, 2021

**SAUDI COMPANY FOR HARDWARE
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE
INCOME(UNAUDITED)
(ALL AMOUNTS IN SAUDI RIYALS UNLESS OTHERWISE STATED)**

	For the three month period ended September 30,		For the nine month period ended September 30,	
Note	2021	2020 (Note 2.4)	2021	2020 (Note 2.4)
Revenues	294,734,615	332,139,387	953,511,332	1,079,712,461
Cost of revenues	(242,520,224)	(264,897,585)	(772,750,249)	(864,126,874)
Impairment charge on non- financial assets	2.3 (14,830,583)	-	(14,830,583)	-
GROSS PROFIT	37,383,808	67,241,802	165,930,500	215,585,587
Selling and marketing expenses	(9,995,726)	(6,847,564)	(28,780,311)	(22,659,673)
General and administration expenses	(31,349,632)	(31,513,411)	(90,712,781)	(91,860,520)
Impairment reversal/ (loss) on financial assets	994,370	(68,865)	788,438	(201,464)
OPERATING (LOSS)/ PROFIT	(2,967,180)	28,811,962	47,225,846	100,863,930
Other income, net	1,620,617	817,492	4,828,187	2,042,035
Finance cost	(9,309,990)	(9,995,728)	(27,539,952)	(32,108,780)
(LOSS)/ PROFIT BEFORE ZAKAT	(10,656,553)	19,633,726	24,514,081	70,797,185
Zakat	(3,218,000)	(3,153,035)	(8,312,964)	(9,459,104)
NET (LOSS)/ PROFIT FOR THE PERIOD	(13,874,553)	16,480,691	16,201,117	61,338,081
Other comprehensive income (loss)				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Revaluation of financial assets at FVTOCI	-	-	470,720	-
Remeasurement of actuarial gains/ (losses) on employees end of service benefit obligations	36,209	-	(101,744)	996,018
Total comprehensive (loss)/ income for the period	(13,838,344)	16,480,691	16,570,093	62,334,099
Earnings per share (Saudi Riyals)				
Basic and diluted earnings per share attributable to the equity shareholders of the Company	15 (0.39)	0.46	0.45	1.70
Weighted average number of shares	36,000,000	36,000,000	36,000,000	36,000,000

The accompanying notes on pages 7 to 18 form an integral part of these condensed consolidated interim financial statements.

Chief Financial Officer

Chief Executive Officer

Chairman of Board of Directors

**SAUDI COMPANY FOR HARDWARE
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(ALL AMOUNTS IN SAUDI RIYALS UNLESS OTHERWISE STATED)**

		September 30, 2021	December 31, 2020
	Notes	(unaudited)	(audited)
ASSETS			
Non-current assets			
Right of use assets	5	674,615,685	566,474,772
Property and equipment	6	396,929,179	300,534,883
Intangible assets	7	47,489,030	33,467,091
Financial assets at fair value through other comprehensive income (FVTOCI)	17,18	10,322,813	9,852,093
Total non current assets		1,129,356,707	910,328,839
Current assets			
Inventories	8	758,459,212	625,037,746
Prepayments and other receivables	10	41,301,168	35,673,464
Accounts receivable	9	25,723,384	34,824,102
Cash and cash equivalents		11,850,151	32,660,408
Total current assets		837,333,915	728,195,720
TOTAL ASSETS		1,966,690,622	1,638,524,559
EQUITY AND LIABILITIES			
Equity			
Share capital	1	360,000,000	360,000,000
Statutory reserve		26,124,825	24,504,713
Retained earnings		211,542,227	224,062,966
Fair value reserve		2,062,360	1,591,640
Total equity		599,729,412	610,159,319
Non-current liabilities			
Lease liabilities	12	712,358,957	586,442,854
Long term borrowings	11	64,998,623	-
Employees end of service benefit obligation		43,138,359	40,100,088
Total non-current liabilities		820,495,939	626,542,942
Current liabilities			
Accounts and notes payable		274,864,448	214,770,873
Accrued expenses and other liabilities		114,802,423	112,434,444
Current portion of lease liabilities	12	60,846,861	61,003,274
Short term borrowings	11	70,917,189	-
Current portion of long-term borrowings	11	14,827,500	-
Zakat payable		9,981,106	13,374,892
Dividends payable		225,744	238,815
Total current liabilities		546,465,271	401,822,298
Total liabilities		1,366,961,210	1,028,365,240
TOTAL EQUITY AND LIABILITIES		1,966,690,622	1,638,524,559

The accompanying notes on pages 7 to 18 form an integral part of these condensed consolidated interim financial statements.


Chief Financial Officer



Chief Executive Officer


Chairman of Board of Directors

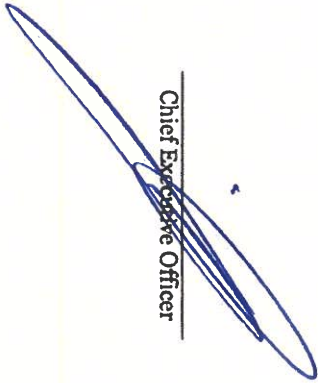
**SAUDI COMPANY FOR HARDWARE
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
(ALL AMOUNTS IN SAUDI RIYALS UNLESS OTHERWISE STATED)**

Note	Share capital	Statutory reserve	Retained earnings	Fair value reserve	Total
Balance at January 1, 2020 (audited)	360,000,000	15,952,051	163,512,081	1,401,700	540,865,832
Net profit for the period	-	-	61,338,081	-	61,338,081
Other comprehensive income for the period	-	-	966,018	-	966,018
Total comprehensive income	-	-	62,334,099	-	62,334,099
Transfer to statutory reserve	-	6,133,808	(6,133,808)	-	-
Dividend distribution	-	-	(18,000,000)	-	(18,000,000)
Balance at September 30, 2020 (unaudited)	360,000,000	22,085,859	201,712,372	1,401,700	585,199,931
Balance at January 1, 2021 (audited)	360,000,000	24,504,713	224,062,966	1,591,640	610,159,319
Net profit for the period	-	-	16,201,117	-	16,201,117
Other comprehensive (loss)/ income for the period	-	-	(101,744)	470,720	368,976
Total comprehensive income	-	-	16,099,373	470,720	16,570,093
Transfer to statutory reserve	-	1,620,112	(1,620,112)	-	-
Dividend distribution	20	-	(27,000,000)	-	(27,000,000)
Balance at September 30, 2021 (unaudited)	360,000,000	26,124,825	211,542,227	2,062,360	599,729,412

The accompanying notes on pages 7 to 18 form an integral part of these condensed consolidated interim financial statements.



Chief Financial Officer



Chief Executive Officer



Chairman of Board of Directors

**SAUDI COMPANY FOR HARDWARE
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
(UNAUDITED)
(ALL AMOUNTS IN SAUDI RIYALS UNLESS OTHERWISE STATED)**

		For the nine month period ended September 30,	
	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before Zakat		24,514,081	70,797,185
Adjustments for:			
Interest on borrowing and bank charges		1,393,206	5,279,605
Interest on lease liability		26,146,746	26,829,174
Depreciation and amortization		35,297,358	40,212,325
Depreciation of right-of-use assets		51,350,210	55,787,099
Loss from shrinkage and inventory shortages		9,146,091	9,408,324
(Reversal)/ Provision for slow moving items and inventory shortages		(1,730,976)	11,022,547
Lease concession – IFRS16	12	(1,052,675)	(7,416,677)
Gain on lease modification		(1,589,331)	-
Impairment (reversal)/loss on financial assets	9	(788,438)	201,464
(Write off)/ Allowance for prepayments and other receivables		(1,004,167)	2,058,255
Provision for employees end of service benefit obligations		5,951,153	3,796,639
Gain on disposal of property and equipment		-	(72,153)
Impairment charge on non-financial assets	5,6	14,830,583	-
Movement in working capital:			
Inventories		(140,836,579)	51,808,504
Accounts receivable		9,889,156	3,851,131
Prepayments and other receivables		(4,623,537)	(325,459)
Accounts payable		60,093,575	(47,290,052)
Accrued expenses and other current liabilities		1,791,818	21,571,884
Cash generated from operations		88,778,274	247,519,795
Zakat paid		(11,706,598)	(10,702,977)
Finance cost paid		(817,197)	(5,388,443)
Employees end of service benefit obligation paid		(3,014,626)	(7,279,708)
Net cash generated from operating activities		73,239,853	224,148,667
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase for property and equipment		(123,640,882)	(48,076,311)
Proceeds from disposal of property and equipment		-	134,060
Purchase for intangible assets		(18,863,395)	(1,205,150)
Net cash used in investing activities		(142,504,277)	(49,147,401)
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in short term borrowings, net		70,917,189	(80,699,007)
Proceeds/ (repayment) of long-term borrowings		79,826,123	(18,508,928)
Repayment of principal of lease liability		(49,129,328)	(30,568,771)
Repayment of interest portion of lease liability		(26,146,746)	(26,829,173)
Dividends paid		(27,013,071)	(17,862,913)
Net cash generated from/(used in) financing activities		48,454,167	(174,468,792)

Continue

**SAUDI COMPANY FOR HARDWARE
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
(UNAUDITED)
(ALL AMOUNTS IN SAUDI RIYALS UNLESS OTHERWISE STATED)**

	For the nine month period ended September 30,	
	2021	2020
Net change in cash and cash equivalents	(20,810,257)	532,474
Cash and cash equivalents at the beginning of period	32,660,408	17,273,202
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	11,850,151	17,805,676
Significant non-cash transactions:		
Lease liabilities	(197,177,405)	(11,382,477)
Right-of-use assets	194,448,607	11,382,477
Depreciation expense on right of use assets capitalized	4,748,285	-
Interest expense on lease liability capitalized	3,351,015	-
Remeasurements of actuarial (losses) / gains on employees end of service benefit obligations	(101,744)	996,018

The accompanying notes on pages 7 to 18 form an integral part of these condensed consolidated interim financial statements.


Chief Financial Officer


Chief Executive Officer


Chairman of Board of Directors

**SAUDI COMPANY FOR HARDWARE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2021
(ALL AMOUNTS IN SAUDI RIYALS UNLESS OTHERWISE STATED)**

1. GENERAL INFORMATION

Saudi Company for Hardware (the "Company") is a Saudi joint stock company registered in the Kingdom of Saudi Arabia under commercial registration number 1010056595 issued in Riyadh on Safar 26, 1405H (corresponding to November 19, 1984). The Capital Market Authority (the "CMA") announced on Jumada II 5, 1436H (corresponding to March 25, 2015) the CMA's board decision to approve the launch of 7,200,000 shares in the Company's initial public offering which represents 30% of the total shares of the Company's 24,000,000 shares. The Company's shares were listed in the Saudi Stock Market ("Tadawul") on Sha'ban 23, 1436H (corresponding to May 12, 2015).

As of September 30, 2021, the Company's share capital was Saudi Riyals 360 million divided into 36 million shares of Saudi Riyals 10 each (December 31, 2020: Saudi Riyals 360 million divided into 36 million shares of Saudi Riyals 10 each).

The Company is principally engaged in retailing and wholesaling of household and office supplies and appliances, construction tools and equipment, and electrical tools and hardware.

The registered address of the Company is P.O. Box 86387, Riyadh 11622, Kingdom of Saudi Arabia.

The accompanying condensed consolidated interim financial statements include the financial statements of the Company and its 34 leased stores (September 30, 2020: 33 leased stores) located in various cities in the Kingdom of Saudi Arabia, one franchisee store located in Tabuk and the following wholly owned subsidiary:

Subsidiary name	Country	Effective ownership percentage	Activities
Medscan Terminal Company Limited	Saudi Arabia	100%	Transportation and logistics

The Company and its subsidiary are referred to hereinafter as ("the Group").

2. BASIS OF PREPARATION

2.1 Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA") and should be read in conjunction with the Group's last annual consolidated financial statements for the year ended December 31, 2020.

The interim condensed consolidated financial statements do not include all of the information and disclosures normally required for a complete set of consolidated financial statements; however, accounting policies and selected explanatory notes are included to explain events and transactions that are significant to understand the changes in the Group's financial position and performance since December 31, 2020.

The results for the period are not indicative of the Group's annual results.

2.2 Historical cost convention

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following items in the condensed consolidated statement of financial position:

- Financial assets at fair value through other comprehensive income ("FVTOCI") is measured at fair value.
- Employees end of service benefit obligations is recognised at the present value of future obligations using the Projected Unit Credit Method.
- Lease liabilities are measured at the net present value of lease payments.

**SAUDI COMPANY FOR HARDWARE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2021
(ALL AMOUNTS IN SAUDI RIYALS UNLESS OTHERWISE STATED)**

2. BASIS OF PREPARATION (CONTINUED)

2.3 Use of judgements and estimates

In preparing these condensed consolidated interim financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Management carried out an impairment test for its non-financial assets for the reporting period ended September 30, 2021, as events and changes in circumstances indicated that the carrying amount of certain of the Group's cash generating units ("CGU") may not be recoverable, for which management has considered both internal and external information for indicators of impairment. Management used the discounted cash flow model to determine the recoverable amount of the respective CGU. Management identifies each of its retail store as a separate CGU. Management determines that the recoverable amount of each CGU is its value in use. Management used a discount rate of 8.25% in estimating the value in use. The outcome of such impairment test resulted in an impairment loss for certain CGU's which has been recorded in the accompanying condensed consolidated interim financial statements (see also notes 5 and 6).

The significant judgments made by management in applying The Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual consolidated financial statements.

However, as explained in Note 21, the Group has reviewed the key sources of estimation uncertainties disclosed in the last annual consolidated financial statements against the backdrop of the COVID-19 pandemic. The Group's management believes that, all sources of estimation uncertainty remain similar to those disclosed in the last annual consolidated financial statements. Management will continue to monitor the situation and any changes required will be reflected in future reporting periods.

2.4 Restatement

In the normal course of business, the Group receives certain vendor contributions. During the prior period, the Group used to account for such contributions as a deduction from the selling and marketing expenses. The Group's management has reassessed, in detail the relevant arrangements for such contributions and concluded that such contributions should instead be accounted for within the cost of revenue. Accordingly, and for a better presentation of the underlying arrangement, management has restated the relevant comparative information for 2020 in the condensed consolidated interim statement of comprehensive income for the nine month and three month periods ended September 30, 2020 as shown below:

Impact on condensed consolidated interim statement of comprehensive income for the nine month period ended September 30, 2020:

	As previously reported	Restatement	As restated
Cost of revenue	874,202,292	(10,075,418)	864,126,874
Gross profit	205,510,169	10,075,418	215,585,587
Selling and marketing expense	12,584,255	10,075,418	22,659,673

Impact on condensed consolidated interim statement of comprehensive income for the three month period ended September 30, 2020:

	As previously reported	Restatement	As restated
Cost of revenue	266,192,676	(1,295,091)	264,897,585
Gross profit	65,946,711	1,295,091	67,241,802
Selling and marketing expense	5,552,473	1,295,091	6,847,564

This restatement did not have any impact on the condensed consolidated interim statement of financial position as of September 30, 2020, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the period ended September 30, 2020.

The Group's management believes that the above restatement does not materially affect the Group's key performance indicators.

**SAUDI COMPANY FOR HARDWARE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2021
(ALL AMOUNTS IN SAUDI RIYALS UNLESS OTHERWISE STATED)**

3. FUNCTIONAL AND PRESENTATION CURRENCY

These condensed consolidated interim financial statements are presented in Saudi Riyals which is the Group's functional and presentation currency. All amounts are in Saudi Riyals unless otherwise stated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 New standards and amendments to standards and interpretation

There are no new standards issued during the period ended September 30, 2021, however there are number of new standards and amendments to standards which are effective from January 1, 2021 and their impact on the Group has been explained in the Group's annual consolidated financial statements. Management believe that the new standards and amendments will not have a material impact on the Group's condensed consolidated financial statements.

4.2 Zakat

The Group is subject to the regulations of the Zakat, Tax and Customs Authority in the Kingdom of Saudi Arabia. The Zakat provision is charged to the statement of comprehensive income. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized.

Zakat expense is recognized in each interim period based on the best estimate of the annual zakat charge expected for the full financial year. Amounts accrued for zakat expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual charge changes.

The Group filed its consolidated zakat return with the Zakat, Tax and Customs Authority up to the year ended December 31, 2020 and settled the related zakat payable accordingly. The Group has received its final consolidated zakat assessments up to the year ended December 31, 2018 and settled the related additional zakat payable amounting to Saudi Riyals 3.8 million accordingly. The subsidiary has filed its standalone zakat return with Zakat, Tax and Customs Authority up to the year ended December 31, 2016 and settled the related zakat payable accordingly. The assessments for the subsidiary for the years from 2011 to 2016 have not been yet finalized.

5. RIGHT OF USE ASSETS

	Properties	Vehicles	Land*	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Net book value at beginning of the period/year	565,027,551	1,447,221	-	566,474,772	584,007,598
Additions	58,032,145	-	136,416,462	194,448,607	52,869,566
Disposals	(20,268,600)	-	-	(20,268,600)	-
Depreciation expense for the period/year	(50,718,251)	(631,959)	-	(51,350,210)	(70,402,392)
Depreciation capitalized (Note 6)	-	-	(4,748,285)	(4,748,285)	-
Impairment charge for the period/year**	(9,940,599)	-	-	(9,940,599)	-
Net book value at end of the period/year	542,132,246	815,262	131,668,177	674,615,685	566,474,772

* The Group signed a contract (Dated February 18, 2020) on March 2, 2020 to lease a land parcel in the city of Jeddah for a total amount of Saudi Riyals 194 million consisting of 22 annual unequal payments started on April 1, 2020. The land parcel has been handed over to the Company on January 3, 2021. This land is partially owned by Samaual Taha Bakhsh (a related party). The Group's management intends to construct a shopping mall on this land parcel for its own use and for investment purposes through leasing retail outlets.

**During the nine-month period ended September 30, 2021, The Group recorded an impairment charge included in the condensed consolidated interim statement of comprehensive income within "Impairment charge on non-financial assets" amounting to Saudi Riyal 9.94 million (December 31, 2020: Nil) as a result of the low financial performance of certain retail stores.

**SAUDI COMPANY FOR HARDWARE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2021
(ALL AMOUNTS IN SAUDI RIYALS UNLESS OTHERWISE STATED)**

6. PROPERTY AND EQUIPMENT

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Net book value at the beginning of the period/ year	300,534,883	267,689,996
Additions*	131,740,182	79,525,189
Disposals	-	(1,209,192)
Depreciation for the period/ year	(30,455,902)	(45,471,110)
Impairment charge for the period/year**	(4,889,984)	-
Net book value at the end of the period/ year	396,929,179	300,534,883

*During the nine-month period ended September 30, 2021, the Group capitalized Saudi Riyal 4.7 million and Saudi Riyal 3.4 million in respect of depreciation of right of use of land and interest expense of corresponding lease liability respectively related to the construction under progress on a leased land (Refer to Note 5 and Note 12).

**During the nine-month period ended September 30, 2021, the Group recorded an impairment charge included in the condensed consolidated interim statement of comprehensive income within "Impairment charge on non-financial assets" and allocated to leasehold improvements amounting to Saudi Riyal 4.9 million (December 31, 2020: NIL) as a result of the low financial performance of certain retail stores.

7. INTANGIBLE ASSETS

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Goodwill	22,377,889	22,377,889
Software and licenses	24,286,411	10,164,450
Others	824,730	924,752
	47,489,030	33,467,091

Impairment test for goodwill

The Goodwill is related to the acquisition of Medscan Terminal Company Limited. Goodwill is monitored by the Group's management at the level of only one cash-generating unit (Medscan).

The Group's management performs goodwill impairment assessment annually and when there are indicators that the carrying value of the goodwill may be impaired. The Group's management believes that any reasonably possible change in the key assumptions used for impairment assessment performed on December 31, 2020 will not cause the carrying value of the goodwill to materially exceed its recoverable amount. Accordingly, no impairment loss was recognized for the nine-month period ended September 30, 2021.

Movement in intangible assets is as follows:

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Net book value at the beginning of the period/ year	33,467,091	36,616,258
Additions	18,863,395	2,585,985
Amortization for the period/ year	(4,841,456)	(5,735,152)
Net book value at the end of the period/ year	47,489,030	33,467,091

**SAUDI COMPANY FOR HARDWARE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2021
(ALL AMOUNTS IN SAUDI RIYALS UNLESS OTHERWISE STATED)**

8. INVENTORIES

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Merchandise:		
In stores and warehouses	667,913,370	572,694,069
On consignment	9,985,537	13,180,295
Consumables	4,223,109	4,792,905
Goods-in-transit	111,922,353	71,686,610
	794,044,369	662,353,879
Allowance for slow moving items and inventory shortages	(35,585,157)	(37,316,133)
	758,459,212	625,037,746

Movement in allowance for slow moving items and inventory shortages is as follows:

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Balance at the beginning of the period/ year	37,316,133	19,000,403
(Reversal)/Provision during the period/ year	(1,730,976)	18,315,730
Balance at the end of the period/ year	35,585,157	37,316,133

9. ACCOUNTS RECEIVABLE

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Accounts receivable – trade	24,171,868	29,529,906
Accounts receivable – others	10,205,886	14,737,004
Impairment loss on financial assets	(8,654,370)	(9,442,808)
	25,723,384	34,824,102

Movement in Impairment loss on financial assets is as follows:

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Balance at the beginning of the period/ year	9,442,808	2,742,881
(Reversal)/Provision during the period/ year	(788,438)	6,922,068
Write off	-	(222,141)
Balance at the end of the period/ year	8,654,370	9,442,808

10. PREPAYMENTS AND OTHER RECEIVABLES

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Prepaid expenses	23,095,367	21,418,256
Advances to suppliers and employees' advances	14,220,165	13,656,249
Due from a related party	-	1,653,750
Others	9,142,074	5,105,814
	46,457,606	41,834,069
Allowance for prepayments and other assets	(5,156,438)	(6,160,605)
	41,301,168	35,673,464

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10. PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

Movement in provision for other receivables is as follows:

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Balance at the beginning of the period/ year	6,160,605	4,102,350
Provision during the period/year	-	2,058,255
Write off	(1,004,167)	-
Balance at the end of the period/ year	5,156,438	6,160,605

11. BORROWINGS

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Short-term borrowings	70,917,189	-
Long-term borrowings	79,826,123	-
Total borrowings	150,743,312	-
Current portion of long-term borrowings	14,827,500	-
Non-current portion of long-term borrowings	64,998,623	-
Total long-term borrowings	79,826,123	-

Maturity profile of non-current portion of long-term borrowings is as follows:

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
More than 1 year	20,000,000	-
More than 2 years but not more than 5 years	44,998,623	-
	64,998,623	-

The Group has credit facilities amounting to Saudi Riyal 633 million from various local banks of which Saudi Riyal 220 million were utilized as at September 30, 2021. Such facilities comprise short and long-term borrowings, letters of credit and guarantee and notes payable for bills of exchange to finance working capital, investments, and capital expenditures. These facilities, which are in form of Murabaha and Tawarroq financing, bear financial charges at prevailing market rates based on Saudi Inter-bank Offer Rate ("SIBOR") and Riyadh Inter-bank Offer Rate ("RIBOR"). The facilities are secured by order notes payable on demand equivalent to the total value of the facilities.

Borrowings contain certain covenants. A future breach of covenants may lead to renegotiation of the related borrowing. The covenants are monitored on a monthly basis by management, and in case of potential breach, appropriate actions are taken by the management to ensure compliance. The Group has complied with these covenants of its borrowing facilities as of September 30, 2021.

The fair values of the above borrowings are not materially different from the carrying amount, since the interest payable on those borrowings are close to current market rates.

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12. LEASE LIABILITIES

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
At beginning of the period/ year	647,446,128	645,790,006
Additions	197,177,405	52,993,945
Disposals	(24,586,727)	-
Interest on lease liability for the period/ year	26,146,746	35,831,867
Interest expense capitalized (Note 6)	3,351,015	-
Payments during the period/ year	(75,276,074)	(77,244,050)
Lease Concession for the period/ year	(1,052,675)	(9,925,640)
At the end of the period/ year	773,205,818	647,446,128

Lease liability balance consists as follows:

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Lease liability undiscounted principal payments	1,043,272,646	892,596,773
Unamortized interest	(270,066,828)	(245,150,645)
	773,205,818	647,446,128

Analyzed as;

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Current portion	60,846,861	61,003,274
Non-current portion	712,358,957	586,442,854
	773,205,818	647,446,128

13. COMMITMENTS AND CONTINGENCIES

The Group had the following contingencies and commitments:

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Letters of credit	46,859,581	65,993,460
Letters of guarantees	12,202,116	13,077,944

The Group is subject to litigation in the normal course of its business. The Group's management does not believe that the outcome of these court cases will have any material impact on the Group's results or its financial position.

14. COMMITMENT FOR EXPENDITURE

The capital commitments related to ongoing activities of the Group's various stores is as follows:

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Commitments for Group's various stores	16,132,791	22,957,109

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15. EARNINGS PER SHARE (EPS)

Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares. The calculation of diluted earnings per share is not applicable to the Group. Also, no separate earning per share calculation from continuing operations has been presented since there were no discontinued operations during the period.

The EPS calculation is given below:

	September 30, 2021 (unaudited)	September 30, 2020 (unaudited)
Net profit for the period attributable to ordinary equity holders of the Company	16,201,117	61,338,081
Weighted average number of shares in issue during the period	36,000,000	36,000,000
Earnings per share	0.45	1.70

16. RELATED PARTIES TRANSACTIONS

16.1 Related parties' transactions

	Nature of transaction	September 30, 2021 (unaudited)	September 30, 2020 (unaudited)
Inheritors of Abdullah Taha Baksh*	Rental agreement for two show rooms and land lease	3,585,000	4,893,333

*Inheritors of Abdullah Taha Baksh and Samaual Taha Baksh are shareholders of Abrar International Holding Company which is one of the major shareholders of the Company. See also note 5 for land leased from a related party.

16.2 Transactions with key management personnel

	September 30, 2021 (unaudited)	September 30, 2020 (unaudited)
Short term benefits	4,563,063	2,267,656
End of service benefits	552,819	166,535
	5,115,882	2,434,191

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVTOCI)

ACE Hardware International Holdings, Ltd (AIH) is a limited liability company incorporated under the laws of Bermuda. AIH is a majority-owned and controlled subsidiary of Ace Hardware Corporation with a noncontrolling interest owned by its international customers.

The fair value of AIH's shares has been reported according to the latest offering prices approved by AIH's Board of Directors which was primary based on annual pricing analysis and business evaluation.

All other financial assets and liabilities of the Group are classified and measured at amortized cost.

For all financial assets, the fair value of financial assets does not materially differ from their carrying values.

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18. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Group is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying amount of financial assets and financial liabilities approximates their fair value. The Group only presents unquoted financial assets at FVTOCI under fair valuation model.

The valuation technique used for measuring the financial assets at FVTOCI is disclosed in Note 17 to these condensed consolidated interim financial statements.

The following table shows the fair values of financial asset at FVTOCI, including its level in the fair value hierarchy.

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Level 3		
Unquoted equity investments at FVTOCI	<u>10,322,813</u>	<u>9,852,093</u>

There were no transfers among level 1, 2, and 3 for the nine month period ended September 30, 2021 and for the year ended December 31, 2020.

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19. SEGMENT INFORMATION

The Group has two major operating segments namely, sales and services and logistic services and both of them are operating inside Saudi Arabia.

Sales and Services segment: This segment include sale of goods made to retail and wholesale customers. Service department represent services department's income from delivery, installation and maintenance of items sold.

Logistic Services: The logistics and related services segment provides a comprehensive logistics offering to its clients, including freight forwarding, transportation and contract logistics.

The Group's Chief Executive Officer (Chief Operating Decision Maker) reviews the internal management reports of each segment at least quarterly for the purpose of resources allocation and assessment of performance. Operating segments are organized based on factors including distribution method, targeted customers and geographic location.

The segment information provided to the strategic steering committee for the operating segment as of and for the nine month periods ended September 30, 2021 and 2020 is as follows:

For the nine month period ended September 30, 2021 (unaudited)	Sales and services	Logistic services	Total
Revenues:			
Total segment revenues	934,935,558	84,098,147	1,019,033,705
Inter-segment revenues	-	(65,522,373)	(65,522,373)
Revenue from external customers	934,935,558	18,575,774	953,511,332
Timing of revenue recognition:			
At a point in time	933,015,139	18,575,774	951,590,913
Overtime	1,920,419	-	1,920,419
	934,935,558	18,575,774	953,511,332
Profit from operations	43,488,390	3,737,456	47,225,846
Other income, net	4,783,957	44,230	4,828,187
Finance cost, net	(27,463,631)	(76,321)	(27,539,952)
Profit before zakat	20,808,716	3,705,365	24,514,081
Zakat	(8,312,964)	-	(8,312,964)
Net profit for the period	12,495,752	3,705,365	16,201,117

Other segment information:

For the nine- month period ended September 30, 2021 (unaudited)	Sales and services	Logistic services	Total
Capital expenditures	150,275,795	327,783	150,603,578
Depreciation on right of use asset	51,306,151	44,059	51,350,210
Depreciation and amortization	32,551,225	2,746,133	35,297,358
Impairment charge on non – financial assets	14,830,583	-	14,830,583
Total segment assets:			
September 30, 2021 (unaudited)	1,937,849,993	28,840,629	1,966,690,622
December 31, 2020 (audited)	1,613,659,336	24,865,223	1,638,524,559
Total segment liabilities:			
September 30, 2021 (unaudited)	1,341,739,293	25,221,917	1,366,961,210
December 31, 2020 (audited)	1,015,258,081	13,107,159	1,028,365,240

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19. SEGMENT INFORMATION (CONTINUED)

For the nine- month period ended September 30, 2020 (unaudited)	Sales and services	Logistic services	Total
Revenues:			
Total segment revenues	1,069,584,224	43,950,503	1,113,534,727
Inter-segment revenues	-	(33,822,266)	(33,822,266)
Revenue from external customers	1,069,584,224	10,128,237	1,079,712,461
Timing of revenue recognition:			
At a point in time	1,067,208,926	10,128,237	1,077,337,163
Overtime	2,375,298	-	2,375,298
	1,069,584,224	10,128,237	1,079,712,461
Profit from operations	96,576,054	4,287,876	100,863,930
Other income, net	1,967,861	74,174	2,042,035
Finance cost	(32,030,245)	(78,535)	(32,108,780)
Profit before zakat	66,513,670	4,283,515	70,797,185
Zakat	(9,459,104)	-	(9,459,104)
Net profit for the period	57,054,566	4,283,515	61,338,081

Other segment information:

For the nine- month period ended September 30, 2020 (unaudited)	Sales and services	Logistic services	Total
Capital expenditures	46,279,377	3,002,084	49,281,461
Depreciation on right of use asset	51,306,152	4,480,947	55,787,099
Depreciation and amortization	37,588,028	2,624,297	40,212,325
Impairment charge on non – financial assets	-	-	-
Total segment assets:			
September 30, 2020 (unaudited)	1,627,656,244	22,839,751	1,650,495,995
December 31, 2019 (audited)	1,741,298,225	22,087,455	1,763,385,680
Total segment liabilities:			
September 30, 2020 (unaudited)	1,053,079,058	12,217,006	1,065,296,064
December 31, 2019 (audited)	1,211,531,719	10,988,129	1,222,519,848

20. DIVIDENDS

At the ordinary general assembly meeting held on April 30, 2020, the Company's shareholders resolved to delegate the authority to the Board of Directors to distribute dividends to the shareholders for the year 2020. The Board of Directors in their meeting held on March 11, 2021 resolved to distribute cash dividends for second half of the year 2020 to the Company's shareholders who owned the shares on March 28, 2021 amounting to Saudi Riyals 27 million at Saudi Riyals 0.75 per share. Those dividends have been paid on April 11, 2021. (2020: The Board of Directors in their meeting held on July 23, 2020 resolved to distribute cash dividends to the Company's shareholders who owned the shares on August 16, 2020 amounting to SR 18 million at SR 0.5 per share. Those dividends have been paid on 30 August 2020.)

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21. CORONA VIRUS PANDEMIC (COVID-19) UPDATE

The Group is carefully monitoring the COVID-19 pandemic and the effect it is having on the retail market, the Group's employees and its financial performance. Measures have been implemented to enable the Group to continue operating on a business as usual basis, including remote working where possible, whilst taking all the necessary precautions to safeguard the well-being of its employees in the context of the ongoing pandemic.

Management believes that the COVID-19 pandemic has had a considerable impact on the global supply-chain issues resulting in shipping shortages, delivery delays and increasing the freight and shipping cost substantially, which impacted the performance of the group during the period ended 30 September 2021.

While the impact of the pandemic is currently expected to be temporary, there is uncertainty around the severity and duration of the disruption and its impact on the business remains uncertain and depends on the future developments that cannot be accurately estimated.

22. EVENTS OCCURRING AFTER REPORTING PERIOD

In the opinion of the management, there have been no significant subsequent events since the reporting period-end that require disclosure or adjustment in these condensed consolidated interim financial statements.

23. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements have been approved by the Board of Directors on November 9, 2021, corresponding to Rabi' II 4, 1443H.