MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

Crowe

Al Azem & Al Sudairy & Al Shaikh & Partners
CPA's & Consultants - Member Crowe Global

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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INDEPENDENT AUDITOR'S REPORT

TO: THE SHAREHOLDERS
MIDDLE EAST SPECIALIZED CABLES COMPANY
(A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of **Middle East Specialized Cables Company (the "Company") and its subsidiary (collectively the "Group"),** which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") 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 the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT ***(Continued)***
MIDDLE EAST SPECIALIZED CABLES COMPANY
(A Saudi Joint Stock Company)

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

<table>
<tr><td colspan="2">Revenue recogintion</td></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group recognized revenue of SAR 526 million for the year ended 31 December 2020 (2019: SAR 468 million).

The Group is engaged in the production and sale of flexible electric, coaxial, rubber and nylon coated wires and cables, telephone cables for internal extensions, computer cables, safety and anti-fire wires and cables and control and transmission of information cables.

The Group recognizes revenue through five steps, as mentioned in IFRS (15) "Revenue from contracts with customers" and these steps require using judgement from the management.

We considered this as a key audit matter due to judgment involved in estimating the performance obligation and the existence of variable consideration, represent mainly the timing and amount of revenue recognized in a financial period can have material effect on the Group's financial performance.</td><td>Our procedures included the following:
Considering the appropriateness of revenue recognition as per the Group's policies and assessing compliance with IFRS (15) "Revenue from contracts with customers".
Testing the design and effectiveness of internal controls implemented by the Group through the revenue cycle.
Testing sample of sales transactions taking place at either side of the consolidated statement of financial position date to assess whether the revenue was recognized in the correct period.
Performing analytical review on revenue based on trends of monthly sales and profit margins.
We assessed the adequacy of the Group's disclosures included in the consolidated financial statements.</td></tr>
<tr><td colspan="2">Refer to note (5.4) for the accounting policy.</td></tr>
</table>

Key Audit Matters ***(Continued)***

Impairment loss on trade receivables	
Key audit matter	**How the matter was addressed in our audit**
The gross balance of trade receivables as at 31 December 2020 amounted to SR 375 million (2019: SR 361 million), against which an allowance for impairment of SR 37 million (2019: SR 54 million) was made. The collectability of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis. Management determines and recognizes expected credit losses ('ECL') as required by IFRS 9 "Financial Instruments". Significant judgments, estimates and assumptions have been made by the management in calculation of ECL impact. We considered this as a key audit matter due to the significance of the impact on the Group's trade receivables, the complexity and judgments related particularly to calculation of expected credit losses.	Our procedures included the following: • Evaluated the Group's processes and controls relating to the monitoring of trade receivables and review of credit risks of customers. • Assessed the appropriateness of significant judgements, estimates and assumptions made by the management. • Checked information Technology General Controls (ITGCs) on the accounting system and found effective. We performed test of one for testing of accuracy of ageing of trade receivables generated by the system. • Assessed methodologies implemented by the Group with reference to the calculation of ECL. Particulary, we assessed the Group's approach regarding assessment of probability of default and incorporation of forward-looking information in the calculation of expected credit losses, as well as the changes of in loss given default parameter. We assessed the adequacy of the Group's disclosures included in the consolidated financial statements.
Refer to note (5.6) for the accounting policy and note (9) for related disclosures.	

INDEPENDENT AUDITOR'S REPORT *(Continued)*
MIDDLE EAST SPECIALIZED CABLES COMPANY
(A Saudi Joint Stock Company)

Key Audit Matters *(Continued)*

<table>
<tr><th>Valuation of inventory</th><th></th></tr>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As at 31 December 2020, the Group's inventories balance was SR 89 million (2019: SR 133 million) net of allowance for slow moving inventories of SR 23 million (2019: SR 39 million).

Inventories are stated at the lower of cost and net realizable value. The Managemnent reassess allowance for slow moving inventories in consediration of the nature and useful life of inventory to writte of the inventory cost override the amount of realizable value.

We considered valuation of inventories as a key audit matter due to the significant management judgment involved in determining the allowance for slow moving inventories and the level of inventories write down required based on net realizable value assessment.</td><td>We performed the following procedures in relation to valuation of inventory:

• Considering the appropriateness of allowance for slow moving inventories as per the Group policies and assessing compliance with applicable accounting standards;

• Testing the design and effectiveness of internal controls implemented by the Group through the inventory cycle;

• Testing the net realizable value of finished goods inventories by considering actual sales post at yearend and the assumptions used by the management to check whether inventories are valued at the lower of cost and net realizable value.

We assessed the adequacy of the Group's disclosures included in the consolidated financial statements.</td></tr>
<tr><td colspan="2">Refer to note (5.16) for the accounting policy and note (10) for related disclosures.</td></tr>
</table>

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we 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 annual report and conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Regulations for Companies and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs 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.

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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محاسبون ومراجعون قانونيون
License No 323/11/148 ترخيص رقم ٣٢٣/١١/١٤٨
Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountant R

Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountants

Abdullah M. Al Azem
License No. 335

12 Shaban 1442H (March 25, 2021)
Riyadh, Kingdom of Saudi Arabia

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

	Note	December 31, 2020 SR	December 31, 2019 SR
ASSETS			
Non-current assets			
Property, plant and equipment	6	**151,827,312**	175,858,624
Intangible assets	7	**3,485,249**	3,499,313
Right of use assets	8	**8,795,560**	10,203,340
Non-current accounts receivable	9	**26,725,829**	33,001,262
Total non-current assets		**190,833,950**	222,562,539
Current assets			
Inventories	10	**88,609,183**	132,986,461
Assets held for sale	11	**6,987,314**	-
Accounts receivable	9	**337,979,236**	304,406,022
Cash and cash equivalents	12	**49,356,857**	14,318,473
Total current assets		**482,932,590**	451,710,956
TOTAL ASSETS		**673,766,540**	674,273,495
EQUITY AND LIABILITIES			
Equity			
Share capital	13	**400,000,000**	400,000,000
Statutory reserve	14	**28,985,180**	28,985,180
Accumulated losses		**(67,899,895)**	(69,443,933)
Total equity		**361,085,285**	359,541,247
Liabilities			
Non-current liabilities			
Long-term loans	15.1	**75,271,039**	94,088,798
Lease liability - non current portion	8	**7,716,500**	8,814,875
Employees' end of service benefits	16	**21,260,621**	19,108,400
Total non-current liabilities		**104,248,160**	122,012,073
Current liabilities			
Current portion of long-term loans	15.1	**21,817,758**	6,537,999
Short-term loans	15.2	**9,579,426**	6,660,318
Accounts payable	17	**145,195,172**	163,375,820
Lease liability - current portion	8	**873,464**	1,111,205
Zakat provision	19	**30,926,088**	14,993,646
Dividends payable		**41,187**	41,187
Total current liabilities		**208,433,095**	192,720,175
Total liabilities		**312,681,255**	314,732,248
TOTAL EQUITY AND LIABILITIES		**673,766,540**	674,273,495

The accompanying notes from (1) to (30) form an integral part of these consolidated financial statements

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

	Note	December 31, 2020 SR	December 31, 2019 SR
Sales		525,593,615	468,183,087
Cost of sales		(444,974,522)	(414,801,730)
Gross profit		80,619,093	53,381,357
Selling and marketing expenses	20	(17,925,351)	(20,935,481)
Administrative and general expenses	21	(31,958,159)	(41,164,560)
Other income (expenses)		165,898	(24,535)
Operating profit (loss)		30,901,481	(8,743,219)
Finance cost	22	(4,979,569)	(6,388,971)
Net profit (loss) before zakat		25,921,912	(15,132,190)
Zakat	19	(23,854,874)	(9,450,000)
Net profit (loss) for the year		2,067,038	(24,582,190)
Other comprehensive loss			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurement loss of employees' end of service benefits		(523,000)	(750,000)
Other comprehensive loss for the year		(523,000)	(750,000)
Total comprehensive income (loss) for the year		1,544,038	(25,332,190)
Earnings (loss) per share	24		
Basic and diluted earnings (loss) for the year attributable to ordinary equity holders		0.05	(0.61)

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

	Share capital SR	Statutory reserve SR	Accumulated losses SR	Total equity SR
Balance at January 1, 2019	400,000,000	28,985,180	(44,111,743)	384,873,437
Net loss for the year	-	-	(24,582,190)	(24,582,190)
Other comprehensive loss for the year	-	-	(750,000)	(750,000)
Total comprehensive loss for the year	-	-	(25,332,190)	(25,332,190)
Balance at December 31, 2019	**400,000,000**	**28,985,180**	**(69,443,933)**	**359,541,247**
Net profit for the year	-	-	**2,067,038**	**2,067,038**
Other comprehensive loss for the year	-	-	**(523,000)**	**(523,000)**
Total comprehensive income for the year	-	-	**1,544,038**	**1,544,038**
Balance at December 31, 2020	400,000,000	28,985,180	(67,899,895)	361,085,285

The accompanying notes from (1) to (30) form an integral part of these consolidated financial statements

MIDDLE EAST SPECIALIZED CABLES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

	December 31, 2020 SR	December 31, 2019 SR
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit (loss) for the year	2,067,038	(24,582,190)
Adjustments:		
Depreciation and amortization	19,496,386	20,556,598
Depreciation of right of use assets	618,245	815,083
(Gain) loss on sale of property, plant and equipment	(71,092)	93,069
Slow moving inventories	1,394,708	7,161,464
Amortization for arrangement fees	-	20,888
Impairment of accounts receivable	2,703,707	6,359,187
Finance cost	4,979,569	6,388,971
Gain on remeasurement of lease liabilities	(52,427)	-
Allowance against amounts due from subsidiary	710,902	488,616
Employees end-of-service benefits	2,592,206	2,576,427
Impairment of property, plant and equipment	817,268	1,117,612
Zakat expenses	23,854,874	9,450,000
Operating cash flows before changes in working capital	59,111,384	30,445,725
Changes in working capital		
Accounts receivable	(30,712,390)	60,635,425
Inventories	42,982,570	(11,164,717)
Accounts payable	(14,589,723)	(36,860,145)
Cash generated from operations	56,791,841	43,056,288
Finance cost paid	(7,591,495)	(11,503,292)
Employee end-of-service benefits paid	(1,400,985)	(2,578,499)
Zakat paid	(7,922,432)	(10,653,176)
Net cash generated from operating activities	39,876,929	18,321,321
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,805,857)	(2,493,252)
Proceeds from sale of property, plant and equipment	111,350	358,998
Purchase of intangible assets	(489,993)	(1,321,765)
Net cash used in investing activities	(3,184,500)	(3,456,019)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change on short-term loans	2,919,108	(15,091,160)
Lease liability paid	(1,035,153)	(1,139,707)
Repayment of long-term loans	(3,538,000)	-
Net cash used in financing activities	(1,654,045)	(16,230,867)
Net increase (decrease) in cash and cash equivalents	35,038,384	(1,365,565)
Cash and cash equivalents at the beginning of the year	14,318,473	15,684,038
Cash and cash equivalents at the end of the year	49,356,857	14,318,473
Supplementary information for non-cash transactions:		
Transfer from property, plant and equipment to assets held for sale	7,203,416	
Derecognition of lease liabilities	(789,535)	-
Transfer from property, plant and equipment to intangible assets	50,000	656,851
Short term loans restructured to long term	-	55,000,000
Impact of adopting IFRS 16	-	11,018,423

The accompanying notes from (1) to (30) form an integral part of these consolidated financial statements

1. ACTIVITIES

Middle East Specialized Cables Company ("MESC") ("the Company") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010102402 dated 10 Jumada Awal 1413H (corresponding to 4 November 1992).

The Company and its subsidiary (collectively "the Group") are engaged in the production and sale of flexible electric, coaxial, rubber and nylon coated wires and cables, telephone cables for internal extensions, computer cables, safety and anti-fire wires and cables and control and transmission of information cables.

The address of the Company's registered office is as follows:

Al Bait project, Building No. 1
Salahuddin Street
PO Box 585
Riyadh 11383
Kingdom of Saudi Arabia

The company have following branches: -

Commercial Name – City	Commercial Register Number
Middle East Specialized Cables Company MESC- Khobar Branch	2051023224
Middle East Specialized Cables Company MESC- Jeddah Branch	4030126555

The Company had the following subsidiary and investments as at 31 December 2020. The financial statements of this subsidiary are consolidated and the investments are recorded at fair value in these consolidated financial statements.

Subsidiary/ Investments	Legal status	Current legal ownership % 2020	2019	Country of Incorporation
Middle East Specialized Cables Company- Jordan (MESC Jordan) *	Joint Stock Company	**19.9**	19.9	Jordan
MESC for Medium and High Voltage Cables Company**	Closed Joint Stock Company	**57.5**	57.5	Jordan
MESC - Ras Al-Khaimah	Limited Liability Company	**100**	100	United Arab Emirates

* Fair value for the Company's investments in Jordan is zero.

* The Extra Ordinary General Assembly of the subsidiary in Jordan "MESC for Medium and High Voltage Cables Company" decided in their Meeting dated on October 11, 2017 to liquidate the Company. As a result of that, Middle east specialized Cables Co (MESC KSA) lost control of MESC for Medium and High Voltage Cables Company. Consequently, MESC KSA stopped consolidating MESC for Medium and High Voltage Cables Company from October 11, 2017.

Going concern

The Board of Directors has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future for a period of at least 12 months from end of the reporting period. 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.

The impact of COVID-19

In response to the spread of the Covid-19 virus and the resulting disruption of economic activities in the markets, the management assessed its impact on its operations to ensure the continuity of supplying its products in its markets and took a set of measures to mitigate its impact on its operations and the supply of products to customers. The management believes that the Covid 19 epidemic had a material impact on the financial results of the group that were reported for the year ended December 31, 2020 due to the decrease in demand for the Group's products during this period, and in any case, the management will continue to monitor the situation closely and will adjust any changes required in the future financial reporting periods.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants.

The consolidated financial statements have been prepared on the historical cost basis except defined employee benefit obligations that have been valued at present value of future liabilities using the projected unit credit method and the assets held for sale that have been valued at fair value less cost to sell as described in the significant accounting policies.

The consolidated financial statements are presented in Saudi Riyals, which is the functional and presentation currency of the Group, and all values are rounded to the nearest Saudi Riyal, except where otherwise indicated.

3. BASIS OF CONSOLIDATION FINANCIAL STATEMENTS

These consolidated financial statements comprising the consolidated Statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and notes to the Consolidated Financial Statements of the Group include assets, liabilities and the results of the operations of the Company and its subsidiaries, as set out in note (1). The Company and its subsidiaries are collectively referred to as the "Group". Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control commences until the date on which control ceases. The Group accounts for the business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identified net assets acquired and fair value of pre-existing equity interest in the subsidiary. The excess of the cost of acquisition and amount of Non - controlling interest ("NCI") over the fair value of the identifiable net assets acquired is recorded as goodwill in the consolidated Statement of Financial Position. NCI is measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. If the business combination is achieved in stages, the acquisition date carrying value of the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in the consolidated statement of profit or loss. intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Accounting policies of subsidiaries are aligned, where necessary, to ensure consistency with the policies adopted by the Group. The Company and its subsidiaries have the same reporting periods.

4. USE OF JUDGMENTS AND ESTIMATES

In preparing these consolidated 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

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

4. USE OF JUDGMENTS AND ESTIMATES (Continued)

Useful lives and residual values of property, plant and equipment and intangible assets
An estimate of the useful lives and residual values of property, plant and equipment and intangible assets is made for the purposes of calculating depreciation and amortization respectively. These estimates are made based on expected usage for useful lives. Residual value is determined based on experience and observable data where available.

Provision of expected credit loss
The expected credit loss provision is determined by reference to a combination of factors to ensure that financial assets are not overpriced due to the probability that they will not be collected, including their quality, age, credit rating and collateral. Economic data and indicators are also taken into account.

Impairment of non-financial assets
An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the last five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Provision of slow moving inventory
Inventories are stated at the lower of cost and net realizable value. Adjustments are made to reduce the cost of inventories to net recoverable amount, if necessary.
Influencing factors includes changes in inventory demand, technological changes, deterioration of quality and other quality matters. Accordingly, the Group considers these factors and takes them into account to calculate the provision of idle stock and slow movement. Any adjustments that may result from the difference in these factors are periodically reviewed.

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.

Employee defined benefit plans
Employee defined benefit liabilities are determined using an actuarial valuation which requires estimates to be made of the various inputs. These estimates have been disclosed in note 16.

4. USE OF JUDGMENTS AND ESTIMATES (Continued)

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
In the principal market for the asset or liability; or
In the absence of a principal market, in the most advantageous market for the asset or the liability.
The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or the liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy. This is described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
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.

For assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 New Standards, Amendment to Standards and Interpretations:

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

5.1.1 Amendments to IFRS 3 – definition of a business

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

5.1.2 Amendments to IAS 1 and IAS 8 on the definition of materiality

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;

ii) Clarify the explanation of the definition of material; and

iii) Incorporate some of the guidance in IAS 1 about immaterial information.

5.1.3 Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark

Reform these amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally, cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the Consolidated Statement of Profit or Loss. The adoption of above amendments do not have any material impact on the Consolidated Financial Statements during the year.

5.2 Standards issued but not yet effective

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted them in preparing these Consolidated Financial Statements.

5.2.1 Amendments to IAS 1 "Presentation of Financial Statements" to the classification of liabilities

These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.2 Standards issued but not yet effective (Continued)

5.2.2 Amendments to IFRS 3, IAS 16, IAS 37

- IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- IAS 16, 'Property, plant and equipment' prohibit a Group from deducting from the cost of property, plant and equipment amounts received from selling items produced while the Group is preparing the asset for its intended use. Instead, a Group will recognise such sales proceeds and related cost in profit or loss.
- IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a Group includes when assessing whether a contract will be loss-making.

5.3 Annual Improvements to IFRSs 2018–2020 Cycle
These improvements are effective on or after January 2021.

- IFRS 9, 'Financial Instruments' - Clarify the fees a Group includes in performing the "10 per cent test" in order to assess whether to derecognise a financial liability.
- IFRS 16, 'Leases' - Remove the potential for confusion regarding lease incentives by amending an Illustrative Example 13 accompanying
- IAS 41, 'Agriculture' - Align the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

5.4 Revenue

Revenue is measured based on the consideration specified in a contract with customer and excludes amount collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or service to a customer. The principles in IFRS 15 are applied using the following five steps:

Step 1: The Group accounts for a contract with a customer when:

- The contract has been approved and the parties are committed;
- Each party's rights are identified;
- Payment terms are defined;
- The contract has commercial substance; and
- Collection is probable.

Step 2: The Group identify all promised goods or services in a contract and determines whether to account for each promised good or service as a separate performance obligation. A good or service is distinct and is separated from other obligations in the contract if both:

- the customer can benefit from the good or service separately or together with other resources that are readily available to the customer; and
- the good or service is separately identifiable from the other goods or services in the contract.

Step 3: The Group determine the transaction price, which is the amount of consideration it expects to be entitled to in exchange for transferring promised goods or services to a customer.

Step 4: The transaction price in an arrangement is allocated to each separate performance obligation based on the relative standalone selling price of the good or service being provided to the customer.

Step 5: Revenue is recognized when control of the goods or services is transferred to the customer. The Group transfers a good or service when the customer obtains control of that good or service. A customer obtains control of a good or service if it has the ability to direct the use of and receive the benefit from the good or service.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4 Revenue (Continued)

The following is a description, accounting policies and significant judgements of the principal activities from which the Group generates revenue.

Sales of goods

Revenue is recognized when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer.

5.5 Leases

The Group assess whether a contract contains a lease, at inception of the contract. For all such lease arrangements the Group recognize right of use assets and lease liabilities except for the short term leases and leases of low value assets as follows:

Right-of-use assets

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

Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. 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 re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.6 Financial instruments

The Group recognizes a financial asset or a financial liability in its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group recognizes a financial instrument at its fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss.

Financial assets

IFRS 9 introduces new classification and measurement requirements for financial assets. IFRS 9 requires all financial assets to be classified and subsequently measured at either amortized cost or fair value. The classification depends on the business model for managing the financial asset and the contractual cash flow characteristics of financial asset, determined at the time of initial recognition.

Financial assets are classified into the following specified categories under IFRS 9:

- Debt instruments at amortized cost;
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets at fair value through profit and loss (FVPL).

Financial assets classified as amortized cost

Debt instruments that meet the following conditions are subsequently measured at amortized cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows: and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, it is measured at fair value.
The Group makes an assessment of a business model at portfolio level as this best reflects the way the business is managed and information is provided to management. In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How management evaluates the performance of the portfolio;
- Whether the management's strategy focus on earning contractual commission income;
- The degree of frequency of any expected asset sales;
- The reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.6 Financial instruments (Continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Income is recognized on an effective interest basis for debt instruments measured subsequently at amortized cost. Interest is recognized in the consolidated statement of profit or loss.

Debt instruments that are subsequently measured at amortized cost are subject to impairment.

Financial assets designated as FVOCI with recycling

Debt instruments that meet the following conditions are subsequently measured at FVOCI:

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

For debt financial instruments measured at FVOCI, commission income and impairment losses or reversals are recognized in consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. All other changes in the carrying amount of these instruments are recognized in other comprehensive income and accumulated under the investment revaluation reserve. When these instruments are derecognized, the cumulative gains or losses previously recognized in consolidated statement of other comprehensive income are reclassified to the consolidated statement of profit or loss.

Financial assets classified as FVPL

Investments in equity instruments are classified as at FVPL, unless the Group designates an investment that is not held for trading as at FVOCI on initial recognition.

Debt instruments that do not meet the amortized cost of FVOCI criteria are measured at FVPL. In addition, debt instruments that meet the amortized cost criteria but are designated as at FVPL to avoid accounting mismatch are measured at fair value through income statement. A debt instrument may be designated as at FVPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instrument as FVPL since the date of initial application of IFRS 9 (i.e. 1 January 2018).
Debt instruments are reclassified from amortized cost to FVPL when the business model is changed such that the amortized cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVPL on initial recognition is not allowed.

Financial assets at FVPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in consolidated statement of profit or loss.

Commission income on debt instruments as at FVPL is included in the consolidated statement of profit or loss.

Dividend income on investments in equity instruments at FVPL is recognized in the consolidated statement of profit or loss when the Group's right to receive the dividends is established.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.6 Financial instruments (Continued)

Investment in equity instruments designated as FVOCI

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVOCI. Designation as at FVOCI is not permitted if the equity investment is held for trading.

A financial asset or financial liability is held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in consolidated statement of other comprehensive income and accumulated in other reserves. Gain and losses on such equity instruments are never reclassified to consolidated statement of profit or loss and no impairment is recognized in income statement. Investment in unquoted equity instruments which were previously accounted for at cost in accordance with IAS 39, are now measured at fair value. The cumulative gain or loss will not be reclassified to income statement on disposal of the investments.

Dividends on these investments are recognized in statement of income when the Group's right to receive the dividends is established. unless the dividends clearly represent a recovery of part of the cost of the investment.

Investment revaluation reserve includes the cumulative net change in fair value of equity investment measured at FVOCI. When such equity instruments are derecognized, the related cumulative amount in the fair value reserve is transferred to retained earnings.

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses (ECL) on debt instruments that are measured at amortized cost or at FVOCI, lease receivables, trade receivables, as well as on loan commitments and financial guarantee contracts.

No impairment loss is recognized for investments in equity instruments. The amount of expected credit losses reflects changes in credit risk since initial recognition of the respective financial instrument.

The Group applies the simplified approach to calculate impairment on trade receivables and this always recognizes lifetime ECL on such exposures. ECL on these financial assets are estimated using a flow rare based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group applies the general approach to calculate impairment. Lifetime ECL is recognized when there has been a significant increase in credit risk since initial recognition and 12 month ECL is recognized the credit risk on the financial instrument has not increased significantly since initial recognition. The assessment of whether credit risk of the financial instrument has increased significantly since initial recognition is made through considering the change in risk of default occurring over the remaining life of the financial instrument.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.6 Financial instruments (Continued)

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default for financial assets, this is represented by the assets' gross carrying amount at the reporting date. Exposure at default for off balance sheet items is arrived at by applying a credit conversion factor to the undrawn portion of the exposure.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, finance lease receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The Group recognizes an impairment gain or loss in the consolidated statement of profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVOCI, for which the loss allowance is recognized in consolidated statement of other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset or substantially all the risk and rewards of ownership to another entity. If the Group neither transfer nor retains substantially all the risks and reward of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities

Financial liabilities carried at amortized cost have been classified and measured at amortized cost using the effective yield method.

For financial liabilities that are designated as at FVPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in consolidated statement of other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in consolidated statement of profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to consolidated statement of profit or loss.

The liability credit reserve includes the cumulative changes in the fair value of the financial liabilities designated as at fair value through profit or loss that are attributable to changes in the credit risk of these liabilities and which would not create or enlarge accounting mismatch in income statement. Amount presented in liability credit reserve are not subsequently transferred to consolidated statement of profit or loss. When such investments are derecognized, the related cumulative amount in the liability credit reserve

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.6 Financial instruments (Continued)

Financial liabilities (Continued)

Is transferred to retained earnings. Since the date of initial application of IFRS 9 (i.e. 1 January 2018), the Group has also not designated any financial liability as at FVPL.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

5.7 Foreign currencies

The Group's consolidated financial statements are presented in Saudi Riyals, which is the presentational and functional currency in Kingdom of Saudi Arabia.

Transactions in foreign currencies are initially recorded by the Group at their market exchange rate against the functional currency at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in consolidated statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in consolidated statement of OCI until the net investment is disposed of, at which time, the cumulative amount is classified to consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in consolidated statement of OCI.

5.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time, that is more than one year, to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. No borrowing costs are capitalized during idle periods.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in consolidated statement of other comprehensive income and released to consolidated statement of profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in consolidated statement of profit or loss in the period in which they are incurred.

5.9 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.10 Employee benefits

Employees' end of service benefits

The end-of-service benefits provision is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurements, comprising actuarial gains and losses, are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in consolidated statement of other comprehensive income in the period in which they occur. Remeasurements recognized in consolidated statement of other comprehensive income are reflected immediately in retained earnings and will not be reclassified to consolidated statement of profit or loss in subsequent periods. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs. Interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

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

The Group presents the first two components of defined benefit costs in consolidated statement of profit or loss in relevant line items. Remeasurements are presented as part of consolidated statement of other comprehensive income.

Short-term employee benefits
A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave, air tickets and sick leave that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service. The liability is recorded at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Retirement benefits
Retirement benefits made to defined contribution plans are expensed when incurred.

5.11 Zakat
Zakat is calculated and provided for by the Group in accordance with General Authority of Zakat and Tax (GAZT) regulations and is charged to consolidated statement of profit or loss. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

5.12 Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. When spare parts are expected to be used during more than one period, then they are accounted for as property, plant and equipment.

Historical cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.12 Property, plant and equipment (Continued)

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes accounted for on a prospective basis.

The Group applies the following annual rates of depreciation to its property, plant and equipment:

Buildings	5%
Plant and machinery	7% to 25%
Furniture, fixtures and office equipment	10% to 15%
Motor vehicles	20%

Land and capital work in progress is not depreciated.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognized in consolidated statement of profit or loss.

5.13 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. The cost of intangible assets acquired in a business combination is their fair value at the effective date of the business combination. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets, which comprises software and test certificates, are amortized over a period of five years and three years respectively.

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

5.14 Assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continued use. These assets are measured at book value or fair value less costs to sell, whichever is lower. Impairment losses are recognized upon initial classification as held for sale in profit or loss. Once the intangible assets, property, plant and equipment are classified as held for sale, they are no longer amortized or depreciated.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.15 Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Goodwill and assets that have indefinite useful live, for example land, are tested annually for impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

5.16 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

5.17 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with banks, all of which are available for use by the Group unless otherwise stated and have maturities of 90 days or less, which are subject to insignificant risk of changes in values.

5.18 Expenses

Cost of sales

Cost of sales represents all expenses directly attributable or incidental to the core production activities of the Group.

Selling, marketing and administrative expenses

Selling and marketing expenses are costs arising from the Group's efforts underlying marketing activities and function. All other expenses are classified as administrative expenses. Allocation of common expenses between cost of sales, selling and marketing and administrative expenses, where required, is made on a reasonable basis with regards to the nature and circumstances of the common expenses.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.19 Current versus Non-current classification

The Group presents its assets and liabilities in the consolidated statement of financial position based on a current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current assets.

A liability is current when it is:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Due to be settled within 12 months after the reporting period; or
- When there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current liabilities.

6. PROPERTY, PLANT AND EQUIPMENT

Cost	Land SR	Buildings SR	Plant and machinery SR	Furniture, fixtures and office equipment SR	Motor vehicles SR	Work in progress SR	Total SR
January 1, 2020	8,460,313	143,888,999	345,046,051	17,065,183	6,814,891	5,052,962	526,328,399
Additions	-	127,200	1,705,609	374,219	-	598,829	2,805,857
Disposals	-	(61,710)	(26,265)	-	(177,383)	-	(265,358)
Transfer to intangible assets	-	-	-	-	-	(50,000)	(50,000)
Transfer to assets held for sale	-	(10,613,000)	-	-	-	-	(10,613,000)
Transfers from Work in progress	-	-	714,513	-	-	(714,513)	-
December 31, 2020	**8,460,313**	**133,341,489**	**347,439,908**	**17,439,402**	**6,637,508**	**4,887,278**	**518,205,898**
Accumulated Depreciation and Impairment							
January 1, 2020	-	73,450,585	253,123,040	15,670,186	6,395,184	1,830,780	350,469,775
Depreciation	-	6,157,356	12,187,110	485,527	112,336	-	18,942,329
Disposals	-	(30,356)	(17,363)	-	(177,381)	-	(225,100)
Transfer to assets held for sale	-	(3,409,584)	-	-	-	-	(3,409,584)
Impairment loss	-	400,109	-	-	-	201,057	601,166
December 31, 2020	-	**76,568,110**	**265,292,787**	**16,155,713**	**6,330,139**	**2,031,837**	**366,378,586**
Net Book Value							
January 1, 2020	8,460,313	70,438,414	91,923,011	1,394,997	419,707	3,222,182	175,858,624
December 31, 2020	**8,460,313**	**56,773,379**	**82,147,121**	**1,283,689**	**307,369**	**2,855,441**	**151,827,312**

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land SR	Buildings SR	Plant and machinery SR	Furniture, fixtures and office equipment SR	Motor vehicles SR	Work in progress SR	Total SR
Cost							
January 1, 2019	8,460,313	146,108,062	345,008,540	17,813,086	7,392,391	5,704,332	530,486,724
Additions	-	72,216	1,615,276	380,417	-	425,343	2,493,252
Disposals	-	(2,291,279)	(1,933,105)	(1,128,320)	(577,500)	(64,522)	(5,994,726)
Transfer to intangible assets	-	-	-	-	-	(656,851)	(656,851)
Transfers from Work in progress	-	-	355,340	-	-	(355,340)	-
December 31, 2019	**8,460,313**	**143,888,999**	**345,046,051**	**17,065,183**	**6,814,891**	**5,052,962**	**526,328,399**
Accumulated Depreciation and Impairment							
January 1, 2019	-	68,482,458	242,283,009	16,185,340	6,761,107	1,554,238	335,266,152
Depreciation	-	6,363,057	12,521,622	549,914	194,077	-	19,628,670
Disposals	-	(2,236,000)	(1,681,591)	(1,065,068)	(560,000)	-	(5,542,659)
Impairment loss	-	841,070	-	-	-	276,542	1,117,612
December 31, 2019	-	**73,450,585**	**253,123,040**	**15,670,186**	**6,395,184**	**1,830,780**	**350,469,775**
Net Book Value							
January 1, 2019	8,460,313	77,625,604	102,725,531	1,627,746	631,284	4,150,094	195,220,572
December 31, 2019	**8,460,313**	**70,438,414**	**91,923,011**	**1,394,997**	**419,707**	**3,222,182**	**175,858,624**

Certain items of property, plant and equipment, except land, with a net book value of SR 81 million (December 31, 2019: SR 90 million) is mortgaged as security against loans (see note 15)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

The allocation of depreciation expenses between cost of revenue and administrative expenses is as follows:

	December 31, 2020 SR	December 31, 2019 SR
Cost of sales	**18,496,821**	19,119,916
General and administrative expenses	**445,508**	508,754
December 31,	**18,942,329**	19,628,670

7. INTANGIBLE ASSETS

	Software SR	**Test certificates SR**	**Total SR**
<u>Cost</u>			
January 1, 2019	2,289,411	2,666,012	4,955,423
Additions	990,001	331,764	1,321,765
Transfer from property, plant and equipment	656,851	-	656,851
December 31, 2019	3,936,263	2,997,776	6,934,039
Additions	153,384	336,609	489,993
Transfer from property, plant and equipment	50,000	-	50,000
December 31, 2020	**4,139,647**	**3,334,385**	**7,474,032**
Accumulated Amortization			
January 1, 2019	1,414,909	1,091,889	2,506,798
Amortization	151,999	775,929	927,928
December 31, 2019	1,566,908	1,867,818	3,434,726
Amortization	34,725	519,332	554,057
December 31, 2020	**1,601,633**	**2,387,150**	**3,988,783**
Net Book Value			
January 1, 2019	874,502	1,574,123	2,448,625
December 31, 2019	2,369,355	1,129,958	3,499,313
December 31, 2020	**2,538,014**	**947,235**	**3,485,249**

The amortization charge has been in the line "Administrative and general expenses" in the consolidated statement of profit or loss and other comprehensive income.

8. RIGHT-OF-USE ASSETS

Right of use assets represent leased lands which generally have lease terms between 20 to 25 years. The cost and related accumulated depreciation are presented below:

	2020 SR	2019 SR
Cost		
Balance at 1 January	11,018,423	-
Impact of adoption IFRS 16	-	11,018,423
Disposal	(920,139)	-
Balance at 31 December	10,098,284	11,018,423
Accumulated Depreciation		
Balance at 1 January	815,083	-
Additions during the year	618,245	815,083
Disposal	(130,604)	-
Balance at 31 December	1,302,724	815,083
Net book value	8,795,560	10,203,340

Lease liabilities as at the year-end are as follows:

	2020 SR	2019 SR
Current portion	873,464	1,111,205
Non-current portion	7,716,500	8,814,875
	8,589,964	9,926,080

The group recognized finance charges SR 540,999 on lease liabilities during the year ended 31 December 2020 (31 December 2019: SR 584,067).

Rent expenses related to short-term leases and low-value assets amounted to SR 1,152,704 (31 December 2019: SR 1,594,735).

9. ACCOUNTS RECEIVABLE

	December 31, 2020 SR	December 31, 2019 SR
Trade receivables	**316,428,857**	295,118,512
Retention receivables	**58,810,316**	66,013,448
Less: allowance for expected credit loss	**(37,152,700)**	(54,334,189)
Net trade receivables	**338,086,473**	306,797,771
Advances to suppliers	**4,234,896**	6,004,082
Prepaid expenses	**915,173**	2,078,333
Margin deposits	**1,426,212**	1,315,211
Employee loans	**1,335,214**	767,804
Due from former subsidiary (note 18)	**24,830,279**	45,786,259
Allowance for due from former subsidiary (note 18)	**(6,319,754)**	(26,564,832)
Due from related parties (note 18)	**27,449**	866,065
Other receivables	**169,123**	8,505,939
Allowance for other receivables	**-**	(8,149,348)
	364,705,065	337,407,284
Analyzed between:		
Current assets	**337,979,236**	304,406,022
Non-current assets	**26,725,829**	33,001,262
	364,705,065	337,407,284

Trade receivables:

The Group's credit period on sales of goods is between 60 to 120 days. No interest is charged on trade receivables. The Group has recognized an allowance for expected credit loss against impaired trade receivables. Allowances for expected credit loss are recognized against trade receivables based on estimated irrecoverable amounts determined by reference to the past default experience of the counterparty and an analysis of the counterparty's current financial position, where available.

The Group performs credit-vetting procedures before granting credit to new customers. These procedures are reviewed and updated on an ongoing basis.

The Group has one customer which comprise 14% of the total trade receivables balance. (December 31, 2019: one customer which comprise 26%)

Movement in the allowance for expected credit loss

	December 31, 2020 SR	December 31, 2019 SR
Opening balance	**54,334,189**	54,287,059
Charged for the year	**2,703,707**	6,359,187
Write off during the year	**(19,885,196)**	(6,312,057)
Closing balance	**37,152,700**	54,334,189

During the year 2020, the Board of Directors decided to write off an amount of SR 19,885,196 from the Group books related to trade receivables for a group of clients for which these due amounts were not collected for long time after trying to collect them using possible options (2019: SR 6,312,057).

9. ACCOUNTS RECEIVABLE (Continued)

Movement in the allowance fur due from former subsidiary

	December 31, 2020 SR	December 31, 2019 SR
Opening balance	**26,564,832**	26,076,216
Charged for the year	**710,902**	488,616
Write off during the year	**(20,955,980)**	-
Closing balance	**6,319,754**	26,564,832

During the year 2020, the Board of Directors decided to write off an amount of SR 20,955,980 from MESC for Medium and High Voltage Cables Company for which these due amounts were not collected for long time.

Movement of provision for other receivables

	December 31, 2020 SR	December 31, 2019 SR
Opening balance	**8,149,348**	7,660,387
Charged for the year	-	488,961
Write off during the year	**(8,149,348)**	-
Closing balance	-	8,149,348

During the year 2020, the Board of Directors decided to write off an amount of SR 8,149,348 from the Group books, which represents the debt balance for the sale of 29.1% of its shares in MESC Jordan, which took place during the year 2016 for which these due amounts were not collected for long time.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

The ageing of impaired trade receivables is as follows:

	December 31, 2020 SR	December 31, 2019 SR
0 to 180 days	**2,604,392**	4,826,599
180 to 360 days	**2,123,111**	1,768,877
360 to 720 days	**7,836,806**	12,529,043
Over 720 days	**20,774,849**	32,396,130
	33,339,158	51,520,649

9. ACCOUNTS RECEIVABLE (Continued)

Trade receivables amounting SAR 316,428,857 as at December 31, 2020 (SR 295,118,512 December 31, 2019) includes an amount of SAR 129 million (Saudi Riyals 110 million on December 31, 2019) representing the remainder that exceeded its due date at the end of the balance sheet date and no expected credit losses was taken against. Some of these balances for the Group are secured by Letters of Credit issued by the customer's bank, and customer agreements for rescheduling the receivables.

The ageing of trade receivables which no impairment provision was taking against are as follows:

	December 31, 2020 SR	December 31, 2019 SR
0 to 180 days	239,875,245	209,063,474
180 to 360 days	36,816,962	17,742,387
360 to 720 days	2,583,950	16,218,471
Over 720 days	3,813,542	573,531
	283,089,699	243,597,863

10. INVENTORIES

	December 31, 2020 SR	December 31, 2019 SR
Finished goods	51,560,710	105,158,449
Raw and packing materials	39,595,658	38,986,734
Work in process	10,746,667	15,468,715
Spare parts	8,568,972	8,464,017
Goods in transit	1,247,794	3,619,083
	111,719,801	171,696,998
Less: allowance for slow moving inventories	(23,110,618)	(38,710,537)
	88,609,183	132,986,461
Cost of inventories recognized as an expense during the year	444,974,522	414,801,730
Inventory written of during the year	16,994,628	1,827,888

Movement in the allowance for slow moving inventories:

	December 31, 2020 SR	December 31, 2019 SR
Opening balance	38,710,537	33,376,961
Charge for the year	1,394,708	7,161,464
Written off during the year	(16,994,627)	(1,827,888)
Closing balance	23,110,618	38,710,537

During the year 2020 The Board of Directors decided to write off an amount of SR 16,994,627 related to the non-sellable stock of finished goods and the unusable stock of raw materials (2019: SR 1,827,888).

11. ASSETS HELD FOR SALE

During the year 2020, the company started to implement the procedures for entering into an agreement to sell a group of its owned properties in Jordan and these properties were transferred to assets held for sale after it was classified as property, plant and equipment. As at December 31, 2020, assets held for sale were presented at fair value less costs to sell amounting to SAR 6,987,314 (December 31, 2019: Nil).

12. CASH AND CASH EQUIVALENTS

	December 31, 2020 SR	December 31, 2019 SR
Cash in hand	188,397	187,633
Cash at banks	49,168,460	14,130,840
	49,356,857	14,318,473

13. SHARE CAPITAL

	December 31, 2020 SR	December 31, 2019 SR
40 million ordinary shares (December 31, 2019: 40 million ordinary shares) of SR 10 each	400,000,000	400,000,000

14. STATUTORY RESERVE

In accordance with bye-laws of the Company and Companies Law, the Parent Company transfers 10% of its net income for the year to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital.

15. LOANS

15.1 Long-term loans

	December 31, 2020 SR	December 31, 2019 SR
Total loans	97,088,797	100,626,797
Less: current portion included in current liabilities	(21,817,758)	(6,537,999)
	75,271,039	94,088,798

The loans bear interest at a rate of 3.5% (December 31, 2019: 5.1%) and are secured by promissory notes, corporate guarantees and certain items of property, plant and equipment.

15. LOANS (Continued)

15.2 Short-term loans

	December 31, 2020 SR	December 31, 2019 SR
Bank borrowing	-	6,660,318
Murabaha loan	9,579,426	-
	9,579,426	6,660,318

Murabaha and bank borrowing bear interest at prevailing market rates being SIBOR or EIBOR plus a margin as stipulated in the various loan agreements, and are secured by promissory notes, corporate guarantees and certain items of property, plant and equipment.

Analysis of change in loans for the year ended December 31, 2020 was as follow:

	Long-term loans SR	Short-term loans SR	Total SR
Opening balance	100,626,797	6,660,318	**107,287,115**
Amounts raised	-	21,266,656	**21,266,656**
Amounts repaid	(3,538,000)	(18,347,548)	**(21,885,548)**
Closing balance	**97,088,797**	**9,579,426**	**106,668,223**

16. EMPLOYEES' END OF SERVICE BENEFITS

	December 31, 2020 SR	December 31, 2019 SR
Opening balance	**19,108,400**	17,802,472
Current service cost	**2,592,206**	2,576,427
Interest cost	**438,000**	558,000
Paid during the year	**(1,400,985)**	(2,578,499)
Actuarial loss	**523,000**	750,000
Closing balance	**21,260,621**	19,108,400

The most recent actuarial valuation was performed by a qualified actuary and was performed using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuation were as follows:

16. EMPLOYEES' END OF SERVICE BENEFITS (Continued)

	December 31, 2020 %	December 31, 2019 %
Rate of salary increases	**3.0**	3.0
Discount rate	**2.05**	2.9

All movements in the employee defined benefit liabilities are recognized in consolidated statement of profit or loss except for the actuarial loss (gain) which is recognized in consolidated statement of other comprehensive income.

Sensitivity analyses

The sensitivity analyses presented below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. A positive amount represents an increase in the liability whilst a negative amount represents a decrease in the liability.

	December 31, 2020 SR	December 31, 2019 SR
Increase in discount rate of 1%	**(1,503,750)**	(1,335,000)
Decrease in discount rate of 1%	**1,710,000**	1,518,750
Increase in rate of salary increase of 1%	**1,676,250**	1,500,000
Decrease in rate of salary increase of 1%	**(1,503,750)**	(1,346,250)

17. ACCOUNTS PAYABLE

	December 31, 2020 SR	December 31, 2019 SR
Trade payables	**92,675,945**	112,673,610
Advances from customers	**10,206,249**	5,682,609
Accrued expenses	**21,596,898**	23,266,432
Due to a related party (note 18)	**11,758,066**	11,872,237
Directors remuneration payable	**434,791**	3,257,292
Other payables	**8,523,223**	6,623,640
	145,195,172	163,375,820

No interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

18. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group entered into the following trading transactions with related parties:

		December 31, 2020 SR	December 31, 2019 SR
Middle East Fiber Cables	Sales of goods	**51,481**	237,958
	Purchases	**125,013**	224,600
MESC for Medium and High Voltage Cables Company	Write off	**20,955,980**	-
	Provision provided	**710,902**	488,616
Contractors Services Co.	Sales of goods	**1,052,385**	680,232

The following balances were outstanding with related parties at the reporting date:

	December 31, 2020 SR	December 31, 2019 SR
Trade receivables:		
Middle East Fiber Cables	**27,449**	866,065
MESC for Medium and High Voltage Cables Company	**18,510,525**	19,221,427
	18,537,974	20,087,492
Trade payables:		
Middle East Specialized Cables Company- Jordan (MESC Jordan)	**11,758,066**	11,872,237

During the year, the compensation of key management personnel amounted SR 9,166,870 (31 December 2019: SR 8,065,854). Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

19. ZAKAT PROVISION

The movement in Zakat provision is as follows:

	December 31, 2020 SR	December 31, 2019 SR
Balance at beginning of the year	**14,993,646**	16,196,822
Charged to profit or loss	**23,854,874**	9,450,000
Paid during the year	**(7,922,432)**	(10,653,176)
Balance at end of the year	**30,926,088**	14,993,646

19. ZAKAT PROVISION (Continued)

The significant components of the zakat base is as follows:

	December 31, 2020 SR	December 31, 2019 SR
Equity	360,193,237	455,648,257
Opening provisions and other adjustments	194,447,846	129,041,769
Book value of non-current assets	(132,318,676)	(213,529,963)
	422,322,407	371,160,063
Adjusted net income	31,412,131	5,368,723
Zakat base	453,734,538	376,528,786

Zakat is due at 2.5% of adjusted net income and 2.57768% of the zakat base less the adjusted net income.

The Company has received its final assessment for the years up to December 31, 2007 and received unrestricted Zakat certificate. The Company has filed its zakat declaration for the years from December 31, 2008 and up to December 31, 2019 and obtained Zakat certificate for 2019. During the year 2020, Zakat assessments have been received from the General Authority for Zakat and Tax ("GAZT") for the years from 2014 to 2018 with additional zakat liability of SR 54,652,366. The company filed an objection against GAZT assessment for those years and the litigation is still going on. No final decision has been issued for it until now. The management determined the expected zakat provision on the company's accounts for the years ending on December 31, 2014 until 2018, with the help of its zakat advisor, who suggested, based on his professional opinion, the formation of an estimated provision in the amount of SR 13.7 million. An amount of SR 10.2 million has been charged to cover the estimated zakat provision for the year 2020.
No provision has been made for income taxation, as the Group did not earn any income, which was subject to income taxation.

20. SELLING AND MARKETING EXPENSES

	December 31, 2020 SR	December 31, 2019 SR
Salaries and related costs	6,964,077	7,948,853
Allowance for expected credit loss	2,703,707	6,359,187
Freight	2,394,048	2,390,601
Reversal for impairment of retention receivables	(308,198)	(1,785,432)
Promotion and advertising	5,306,638	4,718,840
Travel	92,748	396,116
Lease charges	221,726	177,820
Others	550,605	729,496
	17,925,351	20,935,481

21. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2020 SR	December 31, 2019 SR
Salaries and related costs	15,429,901	19,220,538
Bank Charges	7,476,609	8,943,480
Allowance for receivable from share sale	-	488,961
Consultancy and professional fees	3,797,031	5,676,633
Allowance for loan to subsidiary	710,902	488,616
Debt arrangement and other costs on loans	-	66,907
Impairment of property	616,211	841,070
Repairs and maintenance	809,587	2,092,272
Depreciation (note 6)	445,508	508,754
Travel	305,987	464,753
Amortization of intangible assets (note 7)	554,057	927,928
Lease charges	381,279	453,946
Others	1,431,087	990,702
	31,958,159	41,164,560

22. FINANCE COST

	December 31, 2020 SR	December 31, 2019 SR
Finance cost on long-term loans	3,340,576	2,007,588
Finance cost on short-term loans	-	3,239,316
Interest cost for EOSB	438,000	558,000
Finance Charges - Material Purchase	659,994	-
Finance cost on lease liability	540,999	584,067
	4,979,569	6,388,971

No finance charges were capitalized during the year.

23. EMPLOYEE BENEFITS EXPENSES

	December 31, 2020 SR	December 31, 2019 SR
Employee defined benefit liabilities	3,030,206	3,134,427
Other employee benefits	53,327,554	60,169,823
	56,357,760	63,304,250

24. EARNING (LOSS) PER SHARE

Basic and diluted earning (loss) per share are based on net income (loss) attributable to owners of the Company and a weighted average number of shares issued of 40 million.

25. COMMITMENTS AND CONTINGENCIES

The Group had capital commitments of SR 8.9 million (December 31, 2019: SR 10.9 million) and contingencies in the form of letters of credit and guarantees of SR 108 million (December 31, 2019: SR 119 million) at the reporting date.

26. SEGMENT INFORMATION

Information reported to the Chief Operating Decision Maker (CODM) for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The directors of the Company have chosen to organize the Group around differences in internal reporting structure.

The Group's operating segments are as follows:

- Saudi Arabia
- United Arab Emirates

Segment revenues and results

	2020		2019	
	Revenue SR	**(Loss) / profit before zakat SR**	**Revenue SR**	**Profit (loss) before zakat SR**
Revenue and profit by segment				
Saudi Arabia	**400,013,696**	**21,350,989**	389,640,789	(396,859)
United Arab Emirates	**204,511,995**	**2,161,216**	192,039,320	(12,608,511)
Intersegment elimination	**(78,932,076)**	**2,409,707**	(113,497,022)	(2,126,820)
	525,593,615	**25,921,912**	468,183,087	(15,132,190)
Segment total assets and liabilities	**Assets SR**	**Liabilities SR**	**Assets SR**	**Liabilities SR**
Saudi Arabia	**632,792,826**	**271,705,397**	644,362,114	284,168,869
United Arab Emirates	**181,727,409**	**121,399,879**	186,727,944	128,561,629
Intersegment elimination	**(140,753,695)**	**(80,424,021)**	(156,816,563)	(97,998,250)
	673,766,540	**312,681,255**	674,273,495	314,732,248

Segment revenues reported represent revenue generated from both external customers and related parties. All segments sell similar product ranges.

There is no customer who contributed more than 10% of the Group's total revenue.

27. FINANCIAL INSTRUMENTS

Capital management

The Group manages its capital to ensure it will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from the previous year.

The capital structure of the Group consists of equity and debt comprising issued capital, the statutory reserve, accumulated losses and loans.

Categories of financial instruments

	December 31, 2020 SR	December 31, 2019 SR
Financial assets		
Cash and bank balances	**49,356,857**	14,318,473
Loans and receivables	**359,554,996**	329,324,869
Financial liabilities		
Amortized cost	**241,657,146**	264,980,326

Market risk

The Group was exposed to market risk, in the form of interest rate risk as described below, during the period under review. There were no changes in these circumstances from the previous year.

Foreign currency risk management

The Group's significant transactions are in Saudi Riyals and United States Dollars which are pegged against the Saudi Riyal at a fixed exchange rate. Management monitors fluctuations in foreign exchange rates and manages their effect on the consolidated financial statements accordingly. The Group did not have any significant foreign currency denominated monetary assets or liabilities at the reporting date for which it was exposed to foreign currency fluctuations. Consequently, no foreign currency sensitivity analysis has been presented.

Interest rate and liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. The Group does not hedge its exposure to movements in interest rates.

27. FINANCIAL INSTRUMENTS (Continued)

Interest and liquidity rate risk management (Continued)

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would have decreased or increased by SR 533,341 (December 31, 2019: SR 536,436). The Group's exposure to interest rates has decreased during the year as a result of a decrease in interest-bearing borrowings.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows:

December 31, 2020 Details	Interest rate %	Within one year SR	One year to five years SR	Over five years SR	Total SR
Long-term loans	3%	24,634,369	77,885,789	-	102,520,158
Short-term loans	-	9,579,426	-	-	9,579,426
Accounts payable	Interest free	134,988,923	-	-	134,988,923
Total		169,202,718	77,885,789	-	247,088,507

December 31, 2019 Details	Interest rate %	Within one year SR	One year to five years SR	Over five years SR	Total SR
Long-term loans	4.9%	6,655,000	98,941,353	-	105,596,353
Short-term loans	5.9%	7,055,376	-	-	7,055,376
Accounts payable	Interest free	157,693,211	-	-	157,693,211
Total		171,403,587	98,941,353	-	270,344,940

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Potential concentrations of credit risk consist principally of trade receivables, amounts due from a related party and short-term cash investments. Details of how credit risk relating to trade receivables is managed is disclosed in note 9. The amounts due from a related party are monitored and provision is made, where necessary, for any irrecoverable amounts. Short-term cash investments are only placed with banks with a high credit rating.

Fair value of financial instruments

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

28. RETIREMENT BENEFIT INFORMATION

The Group makes contributions for a defined contribution retirement benefit plan to the General Organization for Social Insurance (GOSI) in respect of its Saudi Arabian employees. The total amount expensed during the year in respect of this plan was SR 1,248,771 (December 31, 2019: SR 1,367,338).

29. SUBSEQUENT EVENTS

There were no significant subsequent events, adjusting or non-adjusting, since December 31, 2020 that would have a material on the financial position or financial performance of the Group as reflected in these consolidated financial statements.

30. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved on 12 Shaban 1442H (Corresponding to 25 March 2021).