

RIYADH CABLES GROUP COMPANY
(A Saudi Closed Joint Stock Company)
Consolidated Financial Statements
For the year ended 31 December 2020
together with the
Independent Auditor's Report

RIYADH CABLES GROUP COMPANY

(A Saudi Closed Joint Stock Company)

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For the year ended 31 December 2020

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KPMG Professional Services

Riyadh Front, Airport Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Headquarter

Commercial Registration No 1010425494

كي بي إم جي للاستشارات المهنية

وأجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

Independent Auditors' Report

To the Shareholders of Riyadh Cables Group Company

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 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 (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

Basis for Opinion

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

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 IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies, Company's Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, Board of director members, are responsible for overseeing the Group's financial reporting process.



Independent Auditors' Report (continued)

To the Shareholders of Riyadh Cables Group Company

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

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

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

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

KPMG Professional Services

Fahad Mubarak Al Dossari
License No.: 469

Riyadh on:
Date: 6 Dhul Qadah 1442H
Corresponding to: 16 June 2021



RIYADH CABLES GROUP COMPANY
(A Saudi Closed Joint Stock Company)
Consolidated Statement of Financial Position
As at 31 December 2020
(All amounts are expressed in Saudi Riyals unless otherwise stated)

	Note	2020	2019
<u>ASSETS</u>			
Non-current assets			
Property, plant and equipment	9	1,144,404,191	1,228,550,434
Intangible assets	10	72,082,561	-
Financial assets in unquoted equity shares	11	4,304,149	2,387,484
Right-of-use assets	13	12,639,802	14,429,329
Total non-current assets		1,233,430,703	1,245,367,247
Current assets			
Inventories	14	1,145,045,903	1,040,853,013
Trade receivables	16	818,985,307	1,084,250,518
Contract assets	15	6,822,102	13,809,346
Advances and other current assets	12	33,593,181	44,506,318
Advances to purchase financial assets	29	-	21,000,000
Cash and cash equivalents	17	64,252,757	53,614,705
Total current assets		2,068,699,250	2,258,033,900
Total assets		3,302,129,953	3,503,401,147
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital	30	1,500,000,000	1,500,000,000
Statutory reserve	31	229,111,048	207,268,152
Retained earnings		207,953,866	189,479,708
Acquisition reserve of a subsidiary	1	22,725,173	22,725,173
Foreign currency translation reserve		(428,649)	(604,124)
Equity attributable to the shareholders of the company		1,959,361,438	1,918,868,909
Non-controlling interests		(35,891)	392,048
Total equity		1,959,325,547	1,919,260,957
Non-current liabilities			
Post-employment benefits	18	96,426,743	96,146,476
Lease liabilities	13	10,431,847	12,385,358
Total non-current liabilities		106,858,590	108,531,834
Current liabilities			
Islamic Finance Facilities	19	858,675,000	1,209,531,500
Accrued expenses and other liabilities	21	107,882,441	91,721,315
Trade and other payables	22	127,607,217	90,017,183
Provisions	20	110,304,740	59,912,122
Provision for Zakat and income tax	28	29,422,275	22,123,551
Lease liabilities - current portion	13	2,054,143	2,302,685
Total current liabilities		1,235,945,816	1,475,608,356
Total liabilities		1,342,804,406	1,584,140,190
Total equity and liabilities		3,302,129,953	3,503,401,147

CFO

Head of Executive Committee

The attached notes from 1 to 36 are an integral part of these consolidated financial statements.

RIYADH CABLES GROUP COMPANY
(A Saudi Closed Joint Stock Company)
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2020
(All amounts are expressed in Saudi Riyals unless otherwise stated)

	<i>Note</i>	2020	2019
Revenue	23	4,086,816,140	4,565,676,154
Cost of revenue		(3,650,438,801)	(4,085,657,371)
Gross profit		436,377,339	480,018,783
Operating expenses			
Selling and distribution expenses	24	(87,009,617)	(97,964,977)
General and administrative expenses	25	(84,497,147)	(85,119,353)
Allowance / (reversal of) allowance for expected credit losses	16	12,139,922	(33,455,516)
Other income, net	26	8,600,129	15,019,810
Income from operations		285,610,626	278,498,747
Finance costs	27	(35,350,544)	(49,619,023)
Profit before zakat and income tax		250,260,082	228,879,724
Zakat and income tax	28	(32,136,967)	(31,875,390)
Net income for the year		218,123,115	197,004,334
Attributable to:			
Shareholders of the Company		218,428,959	196,881,064
Non-controlling interests		(305,844)	123,270
Net income for the year		218,123,115	197,004,334
Other comprehensive income			
<u>Items that may be reclassified to profit or loss</u>			
Foreign operations translation reserve		175,475	(297,108)
<u>Items that will not be reclassified to profit or loss</u>			
Re-measurements of post-employment benefit obligations	18	388,095	10,938,773
Total comprehensive income		218,686,685	207,645,999
Comprehensive income attributable to:			
Shareholders of the Company		218,992,529	207,522,729
Non-controlling interests		(305,844)	123,270
		218,686,685	207,645,999

CFO

Head of Executive Committee

The attached notes from 1 to 36 are an integral part of these consolidated financial statements.

RIYADH CABLES GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Consolidated statement of changes in equity

For the year ended 31 December 2020**(All amounts are expressed in Saudi Riyals unless otherwise stated)**

	Note	Equity attributable to the shareholders of the company					Total	Non-controlling interests	Total equity
		Share capital	Statutory reserve	Retained earnings	Acquisition reserve of a subsidiary	Foreign currency translation reserve			
Balance at 1 January 2019		1,500,000,000	187,580,045	231,347,978	22,725,173	(307,016)	1,941,346,180	392,138	1,941,738,318
Net income for the year		-	-	196,881,064	-	-	196,881,064	123,270	197,004,334
Other comprehensive income for the year		-	-	10,938,773	-	(297,108)	10,641,665	-	10,641,665
Total comprehensive income for the year		-	-	207,819,837	-	(297,108)	207,522,729	123,270	207,645,999
Net income transferred to statutory reserve		-	19,688,107	(19,688,107)	-	-	-	-	-
Dividend distribution	32	-	-	(230,000,000)	-	-	(230,000,000)	(123,360)	(230,123,360)
Balance at 31 December 2019		1,500,000,000	207,268,152	189,479,708	22,725,173	(604,124)	1,918,868,909	392,048	1,919,260,957
For the year ended 31 December 2020									
Balance at 1 January 2020		1,500,000,000	207,268,152	189,479,708	22,725,173	(604,124)	1,918,868,909	392,048	1,919,260,957
Net income for the year		-	-	218,428,959	-	-	218,428,959	(305,844)	218,123,115
Other comprehensive income for the year		-	-	388,095	-	175,475	563,570	-	563,570
Total comprehensive income for the year		-	-	218,817,054	-	175,475	218,992,529	(305,844)	218,686,685
Net income transferred to statutory reserve		-	21,842,896	(21,842,896)	-	-	-	-	-
Dividend distribution	32	-	-	(178,500,000)	-	-	(178,500,000)	(122,095)	(178,622,095)
Balance at 31 December 2020		1,500,000,000	229,111,048	207,953,866	22,725,173	(428,649)	1,959,361,438	(35,891)	1,959,325,547

*CFO**Head of Executive Committee*

The attached notes from 1 to 36 are an integral part of these consolidated financial statements.

RIYADH CABLES GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Consolidated statement of cash flows

For the year ended 31 December 2020**(All amounts are expressed in Saudi Riyals unless otherwise stated)**

	<u>2020</u>	<u>2019</u>
<u>Operating activities</u>		
Profit for the year before zakat	250,260,082	228,879,724
Adjustments for:		
Provision (reversal of provision) for expected credit losses	(12,139,922)	33,455,516
Reversal for provision against slow moving inventories	5,001,190	(12,754,177)
Finance costs	24,557,668	40,179,926
Depreciation	62,161,104	66,758,688
Depreciation of right-of-use of assets	1,789,527	1,784,639
Provision for accounts receivable	-	410,450
Provisions	50,392,618	(19,253,265)
Gains/loss from disposal of property, plant and equipment	(68,000)	268,180
Interest on lease liabilities	275,566	840,508
Gains on revaluation of investments at fair value through profit or loss	(1,916,665)	-
Post-employment benefits	11,629,629	16,964,952
Working capital changes:		
Trade receivables	277,405,132	(234,112,435)
Contract liabilities	-	(24,175,754)
Contract assets	6,987,244	(4,640,717)
Inventories	(109,194,080)	986,373
Advances and other current assets	10,913,137	14,582,498
Advances to purchase financial assets	21,000,000	(21,000,000)
Trade and other payables	37,590,037	4,168,288
Accruals and other liabilities	16,161,124	(40,125,154)
Net finance costs paid	(24,557,668)	(38,419,387)
Zakat and income tax charged	(24,838,243)	(30,154,426)
Post-employment benefits paid	(10,961,267)	(12,115,819)
Net cash flow generated from / (used in) operating activities	592,448,213	(27,471,392)
<u>Investing activities</u>		
Payments to purchase of property, plant and equipment	(50,372,292)	(89,168,439)
Proceed from sale of property, plant and equipment	342,870	952,267
Net cash flows used in investing activities	(50,029,422)	(88,216,172)
<u>Financing activities</u>		
Repayment of Islamic financing facilities during the year	(3,097,081,500)	(2,568,430,000)
Proceeds from Islamic financing facilities during the year	2,746,225,000	2,924,411,500
Lease liabilities under right-of-use assets	(2,477,619)	(2,366,433)
Dividend paid	(178,622,095)	(230,000,000)
Cash flows (used in)/generated from financing activities	(531,956,214)	123,615,067
Net change in cash and cash equivalents during the year	10,462,577	7,927,503
Cash and cash equivalents at the beginning of the year	53,614,705	45,984,310
Effect of exchange rate changes on cash and cash equivalents	175,475	(297,108)
Cash and cash equivalents at the end of the year	64,252,757	53,614,705

*CFO**Head of Executive Committee*

The attached notes from 1 to 36 are an integral part of these consolidated financial statements.

RIYADH CABLES GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2020**(All amounts are expressed in Saudi Riyals unless otherwise stated)****1- REPORTING ENTITY**

Riyadh Cables Group Company (“the Company”) was formed as a Saudi Closed Joint Stock Company according to the Regulations for Companies in Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010052927 issued on 24 Jumada’ II 1435H (corresponding to 24 April 2014). The Company operates under Industrial License No. 396/R dated 12 Jumada’ II 1416H (corresponding to 25 November 1995) amended by Industrial License No. 36/R dated 5 Muharram 1418H (corresponding to 12 May 1997) amended by Industrial License No. 2572 dated 16 Rajab 1434H (corresponding to 26 May 2013). The Company’s registered office is located at Second Industrial Area, P.O. Box 26862 Riyadh 11496, Kingdom of Saudi Arabia.

The consolidated financial statements include the financial statements of the Company and its subsidiaries listed below (collectively referred to as the “Group”). The principal activities of the Group include the production of cables made from copper aluminum isolated and non-isolated, for use with low, medium and high voltage transformers.

These consolidated financial statements have been prepared for Riyadh Cables Group Company and its subsidiaries listed below:

Subsidiaries	Legal status	Country of incorporation	Ownership interest held by the Group (directly or indirectly)	
			2020	2019
1-Saudi Modern Company for Metals, Cables and Plastic Industry and its subsidiaries listed below:	A Closed Joint Stock Company	Kingdom of Saudi Arabia	100%	100%
1.1 Qatar Cables Company LLC	Limited Liability Company	Qatar	50%	50%
1.2 Arabian Gulf Company for Electrical Cables LLC	Limited Liability Company	Kuwait	49%	49%
1.3 Gulf Company Electrical Works	Limited Liability Company	Oman	100%	100%
1.4 Egyptian Riyadh Cable for Electrical Works (*)	Joint Stock Company (E.S.C)	Egypt	49%	49%
2-Saudi Modern Company for Specialized Wires and Cables Industry	A Closed Joint Stock Company	KSA	100%	100%
3- Saudi Modern Company for Telephone Cables Industry	A Closed Joint Stock Company	KSA	100%	100%
4- Riyadh Cables Company and its subsidiaries listed below:	A Closed Joint Stock Company	KSA	100%	100%
4.1 National Cables Industry Company	A single shareholder limited liability company	UAE	100%	100%
4.2 Alrowad Company for Production of Electrical Cables Limited (**)	A single shareholder limited liability company	Iraq	100%	100%
4.3 Iraqi National Company for Cables Industry	LLC	Iraq	100%	100%
5- Saudi Modern Company for Cables Limited	LLC	KSA	100%	100%

RIYADH CABLES GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2020

(All amounts are expressed in Saudi Riyals unless otherwise stated)

1- REPORTING ENTITY (CONTINUED)

Information about subsidiaries:

1- Saudi Modern Company for Metals, Cables and Plastic Industry

Saudi Modern Company for Metals, Cables and Plastic Industry (the "Company") was formed as a Saudi Closed Joint Stock Company according to the Regulation for Companies in the Kingdom of Saudi Arabia under Commercial Registration No. 1010081709 dated 24 Jumada' II 1435H (corresponding to 24 April 2014). The Ministerial resolution No. 148/Q dated 17 Jumada' II 1435H (corresponding to 17 April 2014) has been issued to approve the conversion of the Company into a closed joint stock company by converting the Company including its rights and obligations as of 17 April 2014.

The Company operates under industrial license No. 9 issued on 9 Muharram 1411H (corresponding to 31 July 1990) which has been amended by the industrial license No. 3263 dated 25 Dhul Qi'dah 1436H (corresponding to 9 September 2015).

The principal activities of the Company include production and sale of copper rods to manufacture telephone and electrical wires, single or multi-cores low voltage cables in addition to production and sale of copper pipes to manufacture refrigeration and aluminum conductors insulated PVC materials.

- Egyptian Riyadh Cable for Electrical Works (*)

Egyptian Riyadh Cable for Electrical Works was formed on 2 October 2019 and is an Egyptian joint stock company in accordance with the provisions of the laws applicable in the Arab Republic of Egypt. The headquarter of the Company is located at 33 Kasr El Nil Street - Abdeen - Cairo. According to the Company's contract No. 19-37814-01-1-01, the principal activities of the Company include import and export all kinds of electric cables and their sizes, electrical pneumatic conveyors, telephone cables, fiber optic cables, copper rods, aluminum rods, control cables, panels, transformers, electrical wires, electrical accessories, electrical machinery and equipment and electrical works contracting.

2- Saudi Modern Company for Specialized Wires and Cables Industry

Saudi Modern Company for Specialized Wires and Cables Industry ("the company") was formed as a Saudi Closed Joint Stock Company according to the Regulations for Companies in Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010106953 on 24 Jumada' II 1435H (corresponding to 25 April 2014). The Company conducts its industrial activities under an industrial license No. 89 dated 10 Muharram 1440H (corresponding to 20 September 2018) issued by Ministry of Energy, Industry and Mineral Resources.

The principal activities of the Company include production of wires and other electronic and electrical cables.

3- Saudi Modern Company for Telephone Cables Industry

Saudi Modern Company for Telephone Cables Industry ("the company") was formed as a Saudi Closed Joint Stock Company according to the Regulations for Companies in Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010107248 dated 17 Jumada' II 1435H (corresponding to 13 April 2014). The Company conducts its industrial activities under an industrial license No. 105 dated 27 Muharram 1413H (corresponding to 28 July 1992) issued by Ministry of Energy, Industry and Mineral Resources.

The principal activities of the Company include production of wires and other electronic and electrical cables.

RIYADH CABLES GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2020

(All amounts are expressed in Saudi Riyals unless otherwise stated)

1. REPORTING ENTITY (CONTINUED)

Information about subsidiaries: (continued)

4- Riyadh Cables Company

Riyadh Cables Company (“the company”) was formed as a Saudi Closed Joint Stock Company according to the Regulations for Companies in Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010146019 issued on 24 Rajab 1435H (corresponding to 24 April 2014). The shareholders of the Company agreed in their meeting held on 27 Safar 1435H (corresponding to 30 December 2013) to convert the Company from a limited liability company into a Saudi closed joint stock company. The Ministerial resolution No. 148/Q dated 17 Jumada’ II 1435H (corresponding to 17 April 2014) has been issued to approve the announcement of conversion of the Company into a Closed Joint Stock Company by converting the Company including its rights and obligations as of 17 April 2014.

- National Cables Industry Company

National Cables Industry Company was formed in 2001 with a capital of AED 80 million. The principal activities of the Company include the production and distribution of electric power transmission cables, the production of electrical wires, the production of telecommunications wires, the production of cables and metal strips and fire resistance.

- Alrowad Company for Production of Electrical Cables Limited ()**

On 31 August 2017, National Cables Industry Company (a subsidiary of Riyadh Cables Company) acquired 100% of interest in Alrowad Company for Production of Electrical Cables Limited in Iraq in the amount of SR 23,008,317 from a related party, "Abdul Qadir Al Muhaidib & Sons Company". The net assets of the Company at the acquisition date amounted to SR 46,976,078. Gains from the acquisition of SR 23,967,761 was recognized in the consolidated statement of changes in equity, and the share in profit or loss from the investment in a subsidiary was recorded from the date of acquisition at 31 August 2017 to the report date at 31 December 2017 in the statement of profit or loss and other comprehensive income. During 2018, the acquisition provision was adjusted to SR 1,242,588 which is represented by additional costs incurred by the Company as a result of the acquisition of Alrowad Company.

- Iraqi National Company for Cables Industry

The Company was formed according to the Articles of Association No. (M.U / 02-8161) dated 18 September 2018 with a capital of IQD 5.5 billion. The Company aims to develop capital investment in the production of electrical wires and cables according to national development plans.

4- Saudi Modern Company for Cables Limited

Saudi Modern Company for Cables Limited (“the Company”) was formed as a limited liability company. Saudi Modern Company for Cables Limited (“the Company”) was formed as a limited liability company under Commercial Registration No. 1010143896 issued in Riyadh on 1 Rajab 1417H (corresponding to 11 November 1996). The Company is a subsidiary of Riyadh Cables Group Company (the Holding Company/Group). The principal activities of the Company according to the Commercial Registration include general constructional and architectural contracting, construction and maintenance of industrial buildings and production lines, industrial services in the maintenance, repair and operation of industrial, electrical and telephone machines, computers, laboratory equipment and its installation and operation, commercial services in marketing, import and export services, inspection services in non-insurance activities, and advertising services.

RIYADH CABLES GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2020

(All amounts are expressed in Saudi Riyals unless otherwise stated)

2- BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with IFRS as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and by-laws of the Group.

- Impact of Coronavirus (Covid-19) Outbreak

The Covid-19 pandemic continues to disrupt global markets and continues to spread to many geographic regions. Hence, the Group continues to be cognizant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level.

The Group has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Company believe are reasonable in the circumstances.

There is a considerable degree of judgement involved in preparing these estimates.

The underlying assumptions are also subject to uncertainties which are often outside the control of the Group.

Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The Group is closely monitoring the situation and has activated its business continuity planning and other risk management practices to manage the potential business disruption Covid-19 outbreak may have on its operations and financial performance.

As the Covid-19 outbreak continues to evolve, it is difficult to forecast its full extent and duration of the economic impact as of now.

The management of the Group is currently monitoring the situation and its impact on the Group's operation, cash flows and financial position.

Management believes, based on their assessment, that the Group has sufficient liquidity available to continue to meet its financial commitments for the foreseeable future as and when they become due.

3- BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis and the going concern concept, except for the following:

- Employees' defined benefits obligations that have been actuarially evaluated and measured at their present value using the projected unit credit method.
- Financial assets carried at fair value through profit or loss

4- PRESENTATION AND FUNCTIONAL CURRENCY

These consolidated financial statements were presented in Saudi Arabian Riyals (SR) which is the functional and presentation currency of the Group. All amounts have been rounded to the nearest SAR, unless otherwise indicated.

RIYADH CABLES GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2020

(All amounts are expressed in Saudi Riyals unless otherwise stated)

5- BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are all entities controlled by the Group. Control is achieved when the Group has rights to the returns, from its involvement in the investee has the ability to affect those returns through its control over the investee. Specifically, the Group controls an investee if, and only if, the Group has all the following:

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

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

- The contractual arrangements with the other vote holders of the investee;
- Rights arising from other contractual arrangements. And
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes in one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and deconsolidated from the date that control ceases.

Accounting for business combinations involving entities or businesses under common control

Accounting for business combinations involving entities or businesses under common control is outside the scope of IFRS 3 "Business Combinations". In the case of an absence of specific guidance in IFRS, management uses its judgement in developing and applying an accounting policy that is relevant and reliable.

In making that judgement, the management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS Framework or any other IFRS or Interpretation. Several such bodies have issued guidance, and some allow the pooling of interests' method in accounting for business combinations involving entities under common control.

The management has adopted the pooling of interest method to account for the business combinations of entities under common control. This method involves the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts (no fair valuation).
- No new goodwill is recognized as a result of combination. And if there is goodwill arising from the difference between the consideration paid and the equity acquired it is reflected directly in the equity.
- The consolidated statement of profit or loss of the combining entities reflects the results of the full year irrespective of when the combination took place.

Non – controlling interest

NCI are measured initially at their proportionate share of the acquirer's identifiable net assets at the date of acquisition.

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5- BASIS OF CONSOLIDATION (CONTINUED)

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

The share of profits or losses and the net assets that the Group does not control if they exist is presented separately in the consolidated statement of profit and loss and within equity in the consolidated statement of financial position. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date when control is lost.

Transactions eliminated on consolidation

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries are changed, where necessary, to ensure consistency with the policies adopted by the Group.

6- APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

6.1 The new and amended IFRS applied that have no material impact on the financial statements

There are various amendments and interpretations that are effective for periods beginning on or after 1 January 2020, but have no effect on the Group's consolidated financial statements.

Amendments to IFRS 3 "Definition of a Business"

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

Amendments to IFRS 7, IFRS 9 and IAS 39 "Interest Rate Benchmark Reform"

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

Amendments to IAS 1 and IAS 8 "Definition of material"

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

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6- APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Conceptual Framework for Financial Reporting issued on 29 March 2018

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

Accounting standards issued but not yet effective

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Company's accounting year beginning on or after January 1, 2021 are listed below. The Company has opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements.

- COVID-19-Related Rent Concessions (Amendments to IFRS 16).
- IFRS 17 - "Insurance contracts", applicable for the period beginning on or after January 1, 2023;
- Amendments to IAS 1 - "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after 1 January 2022.
- Onerous Contracts – Cost of fulfilling a contract (Amendments to IAS 37).
- Interest rate benchmark reforms – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to Conceptual Framework (Amendments to IFRS 3)

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Current versus non-current classification

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

An asset is classified as current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment (except for lands and projects in progress) are stated at cost, net of accumulated depreciation and any accumulated impairment losses, if any.

Lands and projects in progress are stated at cost less any accumulated impairment losses, if any.

Cost includes all amounts necessary for bringing the asset to the existing location to be ready for its intended use by management. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met, as well as costs incurred during the pre-operating period, less proceeds from sale of experimental production.

When parts of property, plant and equipment are significant in cost compared with total cost of asset, and when these parts/components have useful lives different from other parts and required to be replaced at intervals, the Group has to recognize such parts as individual assets with specific useful lives and depreciates them accordingly.

Likewise, when a major inspection is performed (planned or unplanned), its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

This is recorded as a separated part with a useful life equal to the period up to the upcoming planned inspection. The carrying amount of the replaced part is derecognized.

In case the upcoming inspection is made before the planned date, any outstanding carrying value for previous inspection is recorded as an expense. Other repair and maintenance costs are recognized in the consolidated statement of profit or loss as incurred.

Depreciation is calculated from the date for which assets are available for their intended use. Self-constructed assets are from the date of completing such assets and be ready for their intended use. Depreciation on other assets is calculated using the straight-line method over their estimated useful lives as follows:

Depreciation is calculated using the straight-line method over the useful lives of the assets as follows:

	Number of years
Buildings	25
Plant and equipment	20 - 30
Strategic spare parts	10
Motor vehicles	4
Furniture & fixtures	4 – 10
Tools	5
Laboratory equipment	10
Computers	10

Lands and projects in progress are not depreciated. The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at end of each year.

Any item of property, plant and equipment is derecognized upon disposal or when it is unlikely that any future economic benefits will arise from the continuing use of the assets. Profits and losses resulting from disposal of property, plant and equipment that are retired, sold or unrecognized are identified by comparing the proceeds with carrying amount of an asset and are recognized under "other income, net" in the consolidated statement of profit or loss.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangibles assets are initially recognized at cost less accumulated amortization and impairment losses, if any. Costs associated with maintaining computer software are recognized as an expense as and when incurred.

Amortization is charged to statement of profit or loss by applying the straight-line basis whereby the carrying amount of an asset is amortized over its estimated useful life to the Company unless such life is indefinite. The estimated useful life of intangible assets (computer software) is 15 years.

The Company accounts for impairment, where indications exist, by reducing the asset's carrying amount to the recoverable amount.

Impairment of non-financial assets

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the highest of an asset's fair value less cost of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from assets or group of other assets (cash-generating units). Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment loss at the end of each reporting period.

Contract assets and liabilities

Under IFRS 15, when a party to a contract implements its liabilities, the entity shall present in its statement of financial position, contract assets or liabilities, depending on the relationship between the entity's performance and customer payments. Contract assets are an entity's right to consideration in exchange for goods or services that the entity has transferred or implemented to the customer.

Contract liabilities are an entity's obligation to transfer goods or perform services for the benefit of the customer for which the entity received consideration (or is entitled to a payment for) from the customer. If the consideration agreed in the contract includes a variable amount, the Company estimates the amount of consideration that the Company is entitled to in exchange for transferring the goods or services agreed upon with the customer.

Foreign currencies

Transactions and balances

Foreign currency transactions are initially recorded by the Group's entities denominated in the functional currency of each of them according to the exchange rate prevailing on the date when the transaction becomes qualified for recognition for the first time. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the reporting date.

The differences arising on the settlement or translation of monetary items are recognized in the consolidated statement of profit and loss and other comprehensive income of the Group.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate prevailing at the date of the initial transaction.

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7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Translate the financial statements of the Group's subsidiaries

The results and financial position of foreign operations (dealing in currencies that are not economically inflated) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Items of assets and liabilities presented for each statement of financial position are translated at the closing rate at the date of statement of financial position.
- Income and expenses for each statement of profit or loss and other comprehensive income are transferred at the average exchange rates (unless the average rate does not nearly reasonably represent the effect of the accumulated exchange rates prevailing on the transaction dates, in which case the income and expenses are translated at the exchange rates on the transaction dates);
- All currency exchange differences are recognized in other comprehensive income.

Inventories

Inventories include raw materials, work in progress, finished goods, supplies and spare parts that are recorded at the low cost or net realizable value. Work in progress and finished goods inventories include direct materials, direct labors and an appropriate proportion of fixed and variable indirect expenses, the last is recorded on the basis of normal operating capacity.

Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is considered as the estimated selling price in ordinary course of business, less estimated costs to completion and the estimated costs necessary to complete the sale.

Financial instruments

Recognition and initial measurement

Trade receivables issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is an accounts receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. Trade receivables without a significant financing component is initially measured at the transaction price.

Financial assets

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL).

A financial asset is measured at amortized cost if it meets both of the following conditions are met:

- a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b) 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.

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A financial asset shall be measured at FVOCI if both of the following conditions are met:

- a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- b) 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.

A financial asset shall be measured at FVTPL unless it is measured at amortized cost or at FVTOCI.

Financial assets	IFRS 9 classification
Cash and bank balances	At amortized cost
Trade receivables	At amortized cost
Due from related parties	At amortized cost
Other non-current assets	At amortized cost

Subsequent measurement

The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net profit and loss including interest revenue and dividends are recognized in the consolidated statement of profit or loss.
Financial assets at amortized cost	These assets are measured at amortized cost using the effective interest method. Amortized value is reduced by impairment losses. Interest revenue, foreign exchange gains and losses and impairment are recognized in the statement of income. Any gain or loss on derecognition of an investment is recognized in the consolidated statement of profit or loss.
Financial assets through other comprehensive income (debt investments)	Subsequently measured at fair value. Interest revenue calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net profits and losses are recognized in OCI. On derecognition, accumulated profits and losses in OCI are reclassified to the consolidated statement of profit or loss. As at 31 December 2020, the Group has no such assets.
Financial assets through other comprehensive income (investments in equity instruments)	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss. Any profit or loss on derecognition or recognition of investment is recognized in equity, and may not be reclassified to the consolidated statement of profit or loss. As at 31 December 2020, the Group has no such assets.

Reclassifications

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

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7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Derecognition

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either:

(a) The Group has transferred substantially all the risks and rewards of the asset, or

(b) The Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Impairment of financial assets

IFRS 9 impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortized cost and FVTOCI, trade receivables, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at FVTPL.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impairment losses related to receivables from customers are presented separately in the consolidated statement of profit or loss and other comprehensive income.

Expected credit loss assessment for trade and other receivables

The Group applies IFRS 9 simplified approach for measuring expected credit losses, which uses a lifetime expected loss allowance. The method is applied for assessing an allowance against:

- Financial assets measured at amortized cost of the Group

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7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

The expected loss rates are based on the payment profiles of receivables over a period of 12 months before each reported period and corresponding historical credit losses experienced within this period.

The historical loss rates adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The Group has identified GDP of Kingdom of Saudi Arabia, inflation rate and Saudi government spending (the country in which it renders the services) to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The expected loss approach breaks the total loss amount modelling into the following parts: Probability of Default (PD), Loss Given Default (LGD), Exposure At Default (EAD). These are briefly described below:

Loss given default (LGD): This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.

Probability of default (PD): the likelihood of a default over a particular time horizon.

Exposure at default (EAD): This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

The Group uses a point in time (PIT) probability of default model to measure its impairment on financial assets. Point-in-time PD models incorporate information from a current credit cycle and assess risk at a point-in-time. The point-in-time PD term structure can be used to measure credit deterioration and starting PD when performing the allowance calculations. Also, when calculating lifetime expected credit losses, after the inputs are correctly converted, cash flows can be projected and gross carrying amount, loss allowance, and amortized cost for the financial instrument are then calculated.

Macroeconomic weighted average scenarios

The Group includes macroeconomic factor of GDP to develop multiple scenarios, the purpose is towards the realization of most likely outcome using worst and best case scenarios. The scenario-based analysis incorporates forward-looking information into the impairment estimation using multiple forward-looking macroeconomic scenarios. The estimate of expected credit losses reflects an unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes.

After the inputs to the model are adjusted for above mentioned macroeconomic scenarios, PD of each scenario is calculated and then weighted average PD based on likelihood of scenarios is calculated. In the last step, a weighted average lifetime ECL based on the likelihood of the scenarios is determined.

Definition of default

In the above context, the Group considers default when:

- The customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- The customer is more than 360 days past due on any material credit obligation to the Group. As the industry norm suggests that such a period fairly represents default scenario for the Group, this rebuts the presumption of 90 days mentioned in IFRS 9.

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7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

The carrying amount of the asset is reduced using the above model and the loss is recognized in the consolidated statement of comprehensive income. Receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced. If a write-off is later recovered, the recovery is recognized under other income in the consolidated statement of profit or loss.

Specific provision

Specific provision is recognized on customer to customer basis at every reporting date. The Group recognizes specific provision against receivables from certain customers. Provisions are reversed only when the outstanding amounts are recovered from the customers.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities mainly includes trade and other payables, related party and borrowings as mentioned in note 20.

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

Financial liabilities	IFRS 9 classification
Trade payables	At amortized cost
Accrued expenses and other current liabilities	At amortized cost
borrowings	At amortized cost
Due to related parties	At amortized cost

Derecognition

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Modifications of financial assets and financial liabilities

Financial assets

If the terms of the financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount adjusting the gross carrying amount as modification gain or loss in the consolidated statement of profit or loss.

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7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

The Group derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability distinguished and the new financial liability with modified terms is recognized in the consolidated statement of profit or loss.

Offsetting of financial instruments

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

Non-current assets classified as held for sale are presented separately and are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some held for sale assets such as financial assets, continue to be measured in accordance with the Group's relevant accounting policy for those assets. Once classified as held for sale, the assets are not subject to depreciation or amortization.

Any profit or loss arising from the sale of a discontinued operation or its remeasurement to fair value less costs to sell is presented as part of a single line item, profit or loss from discontinued operations.

Cash and cash equivalents

For the purpose of presentation of the consolidated statement of cash flows, cash and cash equivalents include cash on hand, bank balances, short-term deposits, call deposits and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, and which are not subject to significant risk of changes in value.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to settle a liability in an orderly transaction between market participants at the measurement date. 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 liability.

The Group uses appropriate valuation techniques with surrounding conditions for which sufficient data are available to measure fair value, maximizing the use of appropriate inputs that can be monitored and minimizing the use of inputs that cannot be monitored to the greatest extent possible.

The measurement of the fair value of a non-financial asset takes into account the ability of the market participant to generate economic benefits by using the asset at its maximum and best use or by selling it to another market participant who may use the asset at its maximum and best use.

All assets and liabilities whose fair values are measured or disclosed in the financial statements are classified in the fair value hierarchy. This is described as follows, based on the lowest input level that is important for the overall measurement:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be obtained at the measurement date.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for assets or liabilities either directly (such as prices) or indirectly (derived from prices).
- level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

For assets and liabilities that are measured in the financial statements at fair value on a recurring basis, the Group determines whether transfers have been made between hierarchy levels by reassessing the classification (based on the lowest input level that is significant for the overall measurement) at the end of each reporting period.

Statutory reserve

Statutory reserve is based on statutory requirements, and in accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Group is required to set aside 10% of its annual net income to the statutory reserve until such reserve equals 30% of the Group's share capital. This statutory reserve is not available for distribution.

Dividends to the shareholders of the Group

Dividends to the shareholders of the Group are recognized as liability in the consolidated financial statements of the Group in the year in which the dividends are approved by the shareholders of the Group.

Employees' benefits

Short-term employees' benefits

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

Employees benefits are payable to all employees employed under the terms and conditions of the labour laws applicable on the Group, on termination of their employment contracts.

Defined contribution plan

Retirement benefit in the form of General Organization of Social Insurance (GOSI) is a defined contribution scheme. The Group has no obligation, other than the contribution payable to the GOSI. The Group recognizes contribution payable to the GOSI as an expense when due.

Employees' benefits

Defined benefit plans (employees' end-of-service benefits)

The Group operates defined benefit plans, under the Saudi Labor Law applicable based on employees' accumulated periods of service at the date of statement of financial position.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Previously, employees' end of service benefits' liability was calculated at the current value of the vested benefits to which the employee was entitled, should his service be terminated at the reporting date.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in the statement of profit or loss on the earlier of:

- the date of the plan amendment or curtailment, and
- The date on which the Group recognizes related restructuring costs
- Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees' benefits (continued)

The Group recognizes the following changes in the net defined benefit obligation in the consolidated statement of profit or loss:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, and
- net interest expense or income.

Zakat and income tax

Zakat

Zakat is provided for in accordance with regulations of the Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia on an accrual basis. The Zakat charge is recognized in the consolidated statement of profit or loss. The differences, if any, resulting from the final assessments are adjusted in the year when assessments are finalized.

Income tax

Income tax is applied at the specified rates on the adjusted share of the income of non-Saudi shareholders specified in accordance with the Saudi regulations that are endorsed in the Kingdom of Saudi Arabia and is recognized in the consolidated statement of profit or loss and other comprehensive income.

For subsidiaries incorporated and operating outside the Kingdom of Saudi Arabia, provision for tax is computed in accordance with the tax regulations of their respective countries, when it is material. The Group considers that both the current and deferred income tax for these subsidiaries are immaterial.

Deferred tax

Deferred tax, if any, is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets for deductible temporary differences are recorded when it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is recognized, or the liability is settled, based on tax rates (and tax rules) that have been enacted or substantively enacted up to the end of the financial period.

Leases

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

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

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7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

i. Right-of-use assets

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

ii) Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero.

The Group has presented separately the right-of-use assets and the lease liabilities in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term

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7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of liabilities may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-zakat rate that reflects current market assessments of the time value of money and the risks specific to liability. The increase in the provision due to the passage of time is recognized as interest expense.

Revenue recognition

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' which was effective from 1 January 2018.

Revenue is measured based on consideration specified in a contract with a customer, includes unbilled revenue (contract asset) and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control of a product or service to a customer.

The Group assess the services promised in a contract with a customer and identifies as a performance obligation either:

- a) service that is distinct.
- b) series of distinct services that are substantially the same and that have the same pattern of transfer to the customer (i.e. each distinct service is satisfied over the time and the same method is used to measure progress).

The Group recognizes revenue from contracts with customers based on a five-step model as set out in IFRS 15:

Step 1 - Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2 - Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3 - Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4 - Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5 - Recognize revenue when (or as) the entity satisfies a performance obligation.

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7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

The Group satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

(a) The Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date.

(b) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

(c) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

As the performance obligations where one of the above conditions are met, revenue is recognized over time at which time the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised services it creates a contract based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognized this gives rise to advances from customer (contract liability).

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

The application of IFRS 15 has required management to make the following judgments:

Satisfaction of performance obligations

The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognizing revenue.

The Group has assessed that based on the agreement entered into with the customers, the Group does not create an asset with an alternative use to the Group and usually has an enforceable right to payment for performance completed to date.

In these circumstances the Group recognizes revenue over time. Where this is not the case revenue is recognized at a point in time. For sale of goods revenue is generally recognized at point in time.

Determination of transaction prices

The Group is required to determine the transaction price in respect of each of its agreements with customers. In making such judgment the Group assess the impact of any variable consideration in the contract, due to discount or penalties, the existence of any significant financing component in the contract and any non-cash consideration in the contract.

Transfer of control in contracts with customers

In case where the Group determines that performance obligations are satisfied at a point in time, revenue is recognized when control over the assets that is subject of contract is transferred to the customer.

In addition, the application of IFRS 15 has resulted in the following estimation process:

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7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Allocation of transaction price to performance obligation in contracts with customers

The Group has elected to apply the input method in allocating the transaction price to performance obligations where revenue is recognized over time.

The Group considers that the use of the input method, which requires revenue recognition on the basis of the Group's efforts to the satisfaction of performance obligation, provides the best reference of revenue actually earned.

In applying the input method, the Group estimates the efforts or inputs to the satisfaction of a performance obligation. In addition to the cost of meeting contractual obligation to the customers, these estimates mainly include the time elapsed for service contracts.

Other matters to consider

Variable consideration

If the consideration promised in a contract includes a variable amount, the Group estimates the amount of consideration to which the Group is entitled in exchange for transferring the promised goods or services to a customer. The Group estimates the transaction price on contracts with variable consideration using the expected value or most likely amount method. The method is applied consistently throughout the contract and to similar types of contracts.

Significant financing component

The Group adjusts the promised amount of consideration for the time value of money if the contract contains a significant financing component.

Revenue streams

The Group earns revenue from following sources:

Revenue streams	Revenue recognition
Sale of goods	At point in time
Contract revenue	over time

Revenue from sale of goods

Revenue is measured based on consideration specified in the contracts with customers and excludes amounts collected on behalf of third parties. The Group recognizes revenue when control of the product is transferred to the customer, which happens upon delivery to the customer.

If the consideration promised in a contract includes a variable amount, the Group estimates the fees to which it is entitled in exchange for transferring the promised goods or services to the customer.

Contract revenue

Revenue from on-site installation contracts satisfies over time revenue recognition criteria. It is measured based on input method by the percentage of actual cost incurred to-date to estimated total cost for each contract.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances changed. Any resulting increase or decrease in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that lead to the revision become known to the management.

Estimated costs and profits in excess of invoices on incomplete contracts are included in current assets as contract assets, and invoices in excess of costs incurred and estimated profits, if any, are included in current liabilities as contract liabilities.

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7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract costs

Additional costs are recognized to obtain the contract as an expense, unless the Group has reasonable expectation of recovering these costs from its customer, as these costs are explicitly charged to the customers. The Group consumes these costs on a regular basis in conformity with transferring goods or services to a customer.

Cost of sales

Production costs and direct manufacturing expenses are classified as cost of sales. This includes raw material, direct labors, depreciation and other related general indirect costs. This also includes share of the related common overheads.

Selling and distribution expenses

This include any costs incurred to execute or facilitate all sale transactions in the Group. These costs typically include salaries of the sales employees, costs of managing the exhibitions, marketing and distribution expenses, and logistics expenses as well as commissions, fees and the like. This includes share of the related general common costs.

General and administrative expenses

This pertain to operational expenses that are not directly related to the production of any goods or services. This includes share of the related general common costs.

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

Finance cost

The finance cost consists of the interest and other costs that an entity incurs in connection with borrowing of allocated funds through the Group, the interest on the employee's end-of-service benefits according to IAS 19 'Employee Benefits', and interest expenses on lease liabilities in accordance with IFRS 16 'Leases'.

All other borrowing costs are recognized in the consolidated statement of income in the year in which they are incurred.

8- USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, costs, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the asset or liability affected in the future.

These estimates and assumptions are based upon experience and other various factors that are believed to be reasonable under these circumstances and are used to estimate the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in the revision period, if the effect of revision is limited to that period only, or they are recognized in the revision period and future periods if the revision affects both current and future periods.

The key assumption concerning the future and key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year is discussed below:

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8- USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent 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 in prior years. An impairment loss reversal is recognized immediately in the consolidated statement of profit or loss.

Useful life of property, plant and equipment

The management of the Group determines the useful life of property, plant and equipment for calculating depreciation. The estimate is carried out after considering the expected usage of the assets or obsolescence. Management performs periodic review for the estimated useful lives and depreciation method to ensure that depreciation duration and method are consistent with the expected pattern for the economic benefit of the assets.

Fair value estimation of financial instruments

The Group uses the most observable market inputs when measuring the fair value of an asset or a liability. Fair values are classified in a fair value hierarchy based on the inputs used in the valuation which are shown as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be obtained at the measurement date.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for assets or liabilities either directly (such as prices) or indirectly (derived from prices).
- level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Expected credit loss allowance for trade receivables

The Group uses a provision matrix to calculate ECLs of trade receivables. The provision rates are based on days past due for groupings of various customer segments.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information.

For instance, if forecast economic conditions (i.e. GDP of Kingdom of Saudi Arabia, inflation rate and Saudi government spending) are expected to deteriorate over the next year which can lead to an increased number of defaults in the industrial sector, the historical default rates are adjusted.

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8- USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate.

The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions.

The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 14.

Provision for slow moving and obsolete items

Inventories are stated at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made for their net realizable value.

For individually significant amounts, this estimate is made on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of aging or obsolescence.

Assumptions of employees' benefits obligations

The Group operates an end-of-service benefits plan for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected credit unit method in accordance with the periodic actuarial valuations. For details of assumptions and estimate please refer Note 16.

Certain actuarial assumptions have been applied as set out in Note 16 to these consolidated financial statements for valuation of present value of defined benefit obligations. Any changes in these assumptions in future years might affect gains and losses in those years.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate for the consideration required to settle the present obligation at reporting date taking into account risk and doubts specific to liability. Where the 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 Company expects some or all of economic benefits that are required to settle a provision of third party to be reimbursed, the accrued amount is recognized as an asset if the reimbursed amount is virtually certain and its value can be reliably estimated.

Onerous contracts

Current liabilities - arising from onerous contracts - are identified and recognized as provisions. The contract is considered as onerous contract if the Company enters into a contract in which the unavoidable costs of meeting the contractual obligations exceed the financial returns expected to be received under the contract.

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8- USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

Zakat and income tax

When calculating the Zakat and income tax expense for the current period, the Group has adjusted its net income and applied certain assumptions to the Zakat and income tax base used to calculate the Zakat and income tax expense.

However, the Zakat legislations issued the Zakat, Tax and Customs Authority (“ZATCA”) with respect to these amendments are subject to amendments and interpretations that are subject to change. The Group's management has provided its best estimates for those assumptions.

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 (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease.

Going concern

The Group’s management has made an assessment of the Group’s ability to continue as a going concern and is satisfied that the Group and the Group have the resources to continue in business for the foreseeable future.

Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Group’s ability to continue as a going concern.

Therefore, the consolidated financial statements continue to be prepared on a going concern basis

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9- PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings (**)	Machine and equipment	Motor Vehicles	Furniture & fixtures	Tools	Laboratory equipment	Computers	Strategic spare parts	Assets under construction (*)	Total
Cost											
1 January 2020	222,937,082	369,770,884	1,868,222,055	15,663,418	26,385,824	48,749,842	108,105,362	14,623,331	9,707,092	118,579,567	2,802,744,457
Additions	-	205,197	849,037	130,560	466,318	737,193	2,508,035	366,280	-	45,109,672	50,372,292
Disposals	-	-	(188,000)	(188,000)	-	(77,000)	-	-	-	(274,870)	(727,870)
Transfers from asset under construction	-	-	12,299,785	-	-	-	-	-	-	(12,299,785)	-
Transfer to intangible assets	-	-	-	-	-	-	-	-	-	(74,568,167)	(74,568,167)
31 December 2020	222,937,082	369,976,081	1,881,182,877	15,605,978	26,852,142	49,410,035	110,613,397	14,989,611	9,707,092	76,546,417	2,777,820,712
Accumulated depreciation											
1 January 2020	-	192,718,371	1,217,036,269	14,124,863	21,018,726	40,601,228	73,882,977	11,023,994	1,907,356	1,880,239	1,574,194,023
Charge for the year	-	14,116,732	30,759,317	661,144	2,018,388	3,262,594	7,253,427	625,396	978,500	-	59,675,498
Disposals	-	-	(188,000)	(188,000)	-	(77,000)	-	-	-	-	(453,000)
31 December 2020	-	206,835,103	1,247,607,586	14,598,007	23,037,114	43,786,822	81,136,404	11,649,390	2,885,856	1,880,239	1,633,416,521
Net carrying amount											
31 December 2020	222,937,082	163,140,978	633,575,291	1,007,971	3,815,028	5,623,213	29,476,993	3,340,221	6,821,236	74,666,178	1,144,404,191
31 December 2019	222,937,082	177,052,513	651,185,786	1,538,555	5,367,098	8,148,614	34,222,385	3,599,337	7,799,736	116,699,328	1,228,550,434

* Represent the value of the work in progress related to the construction of the Group's plant facilities.

** This item includes buildings constructed on land leased from the Saudi Authority for Industrial Cities and Technology Zones (MODON) for a period of 20 years.

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9- PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Buildings (**)	Machine and equipment	Motor Vehicles	Furniture & fixtures	Tools	Laboratory equipment	Computers	Strategic spare parts	Assets under construction (*)	Total
Cost											
1 January 2019	222,959,721	360,384,834	1,825,853,550	15,565,673	25,350,656	45,413,919	107,760,959	13,733,958	10,622,811	87,718,709	2,715,364,790
Additions	-	5,742,923	5,746,104	715,657	936,585	3,761,292	344,403	898,996	-	71,022,479	89,168,439
Disposals	-	-	-	(616,872)	-	-	-	-	(915,719)	-	(1,532,591)
Transfers from asset under construction	-	3,715,273	36,416,449	-	-	-	-	-	-	(40,131,722)	-
Transfers between assets	-	(11,067)	11,067	-	-	-	-	-	-	-	-
Foreign operations translations	(22,639)	(61,079)	194,885	(1,040)	98,583	(425,369)	-	(9,623)	-	(29,899)	(256,181)
31 December 2019	222,937,082	369,770,884	1,868,222,055	15,663,418	26,385,824	48,749,842	108,105,362	14,623,331	9,707,092	118,579,567	2,802,744,457
Accumulated depreciation											
1 January 2019	-	179,883,171	1,179,404,263	13,549,903	18,879,670	37,794,471	65,199,904	10,365,726	1,046,314	1,880,239	1,508,003,661
Charge for the year	-	12,857,296	37,727,643	922,843	2,140,698	2,811,326	8,683,073	659,879	955,930	-	66,758,688
Disposals	-	-	-	(347,290)	-	-	-	-	(94,888)	-	(442,178)
Foreign operations translations	-	(22,096)	(95,637)	(593)	(1,642)	(4,569)	-	(1,611)	-	-	(126,148)
31 December 2019	-	192,718,371	1,217,036,269	14,124,863	21,018,726	40,601,228	73,882,977	11,023,994	1,907,356	1,880,239	1,574,194,023
Net carrying amount											
31 December 2019	222,937,082	177,052,513	651,185,786	1,538,555	5,367,098	8,148,614	34,222,385	3,599,337	7,799,736	116,699,328	1,228,550,434
31 December 2018	222,959,721	180,501,663	646,449,287	2,015,770	6,470,986	7,619,448	42,561,055	3,368,232	9,576,497	85,838,470	1,207,361,129

* Represent the value of the work in progress related to the construction of the Group's plant facilities.

** This item includes buildings constructed on land leased from the Saudi Authority for Industrial Cities and Technology Zones (MODON) for a period of 20 years.

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	<u>2020</u>	<u>2019</u>
	Computer software	Computer software
Cost:		
As at 1 January	-	-
Additions during the year	<u>74,568,167</u>	-
As at 31 December	<u>74,568,167</u>	-
Amortization:		
As at 1 January	-	-
Charge for the year	<u>2,485,606</u>	-
As at 31 December	<u>2,485,606</u>	-
Net book value as at 31 December	<u>72,082,561</u>	-

** The above intangible assets represent cost of SAP system which was used beginning of current year 2020.

11- FINANCIAL ASSETS IN UNQUOTED EQUITY SHARES

	<u>Shareholding</u>	<u>2020</u>	<u>2019</u>
Natural Gas Distribution Company **	7.67%	<u>3,833,325</u>	1,916,660
International Company for Insulation Materials *	19.7%	<u>470,824</u>	470,824
		<u>4,304,149</u>	<u>2,387,484</u>

* The aforementioned investments are investments unquoted in active financial markets. The management estimated that there is no material difference between their fair value and their book value.

** During 2020, the Extraordinary General Assembly of the Natural Gas Distribution Company agreed to increase its capital by SR 25 million with an increase of 50%, by capitalizing SR 10 million from the statutory reserve account and SR 10 million from the contractual reserve account, in addition to SR 5 million from the retained earnings account. Thus, the investment balance amounted to SR 3,833,325 on 31 December 2020 (2019: SR 1,916,660).

12- ADVANCES AND OTHER CURRENT ASSETS

	<u>2020</u>	<u>2019</u>
Value added tax	<u>999,588</u>	2,573,104
Advances to suppliers	<u>16,481,891</u>	11,485,487
Refundable deposits - customs	<u>2,212,603</u>	4,933,392
Prepaid expenses	<u>5,492,044</u>	15,241,288
Employees' receivables	<u>1,243,689</u>	2,459,180
Other	<u>7,163,366</u>	8,224,317
Less: decrease in advances and other current assets	-	(410,450)
	<u>33,593,181</u>	<u>44,506,318</u>

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13- RIGHT-OF-USE ASSETS

	<u>2020</u>	<u>2019</u>
Right-of-use assets		
As at 1 January	14,429,329	-
Assets recognized during the year	-	16,213,968
Depreciation charged during the year	<u>(1,789,527)</u>	<u>(1,784,639)</u>
Right-of-use assets at 31 December	<u>12,639,802</u>	<u>14,429,329</u>

Depreciation charge for the period ended has been allocated as follows:

Cost of sales	<u>1,789,527</u>	<u>1,784,639</u>
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Lease liabilities

	<u>2020</u>	<u>2019</u>
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Maturity analysis – contractual undiscounted cash flows

Discounted lease liabilities included in the consolidated statement of financial position		
Current	2,054,143	2,302,685
Non-current	<u>10,431,847</u>	<u>12,385,358</u>
	<u>12,485,990</u>	<u>14,688,043</u>

	For the year ended	For the year ended
	31 December	31 December
	2020	2019
Amounts recognized in the consolidated statement of profit or loss		
Depreciation of right-of-use assets	<u>1,789,527</u>	<u>1,784,639</u>
Interest on lease liabilities	<u>275,566</u>	<u>840,508</u>

14- INVENTORIES

	<u>2020</u>	<u>2019</u>
Raw materials	199,545,977	210,093,710
Finished goods	741,444,333	589,067,815
Work in progress	145,384,122	133,634,826
Goods-in-transit	15,774,723	60,697,960
Packaging material	24,478,801	18,645,354
Spare parts	68,242,851	71,775,909
Others (project accessories)	<u>1,158,325</u>	<u>2,919,478</u>
Total	<u>1,196,029,132</u>	<u>1,086,835,052</u>
Less: allowance for slow moving inventory	<u>(50,983,229)</u>	<u>(45,982,039)</u>
Net inventories	<u>1,145,045,903</u>	<u>1,040,853,013</u>

* The Group has entered into a variety of future contracts to meet the price fluctuations risk of copper raw and aluminum, in order to meet the Group's requirements expected from use in manufacturing processes. The effect of closing these contracts - contracts to buy or sell non-financial instruments / or contracts for self-use which are not classified as hedging instruments -, has been recorded in the cost of production included in the consolidated statement of profit or loss and other comprehensive income. The book value of the unexecuted future contracts for copper and aluminum on 31 December 2020, amounted to 107 million US dollars, equivalent to 401 million Saudi riyals.

Movement in allowance for slow moving inventory is as follows:

	<u>2020</u>	<u>2019</u>
1 January	45,982,039	58,736,216
Provision during the year	7,753,410	3,602,918
Reversal of provision during the year	<u>(2,752,220)</u>	<u>(16,357,095)</u>
31 December	<u>(50,983,229)</u>	<u>45,982,039</u>

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For the year ended 31 December 2020**(All amounts are expressed in Saudi Riyals unless otherwise stated)****15- CONTRACT ASSETS****Contract assets**

	<u>2020</u>	<u>2019</u>
Total costs incurred up to reporting date	304,265,771	295,108,570
Total income recognized up to reporting date	30,454,170	33,629,561
Less: Progress billings	<u>(327,897,839)</u>	<u>(314,928,785)</u>
	<u>6,822,102</u>	<u>13,809,346</u>

16- TRADE RECEIVABLES

	<u>2020</u>	<u>2019</u>
Trade receivables	877,006,763	1,198,964,656
Allowance for expected credit losses	<u>(58,021,456)</u>	<u>(114,714,138)</u>
Net trade receivables	<u>818,985,307</u>	<u>1,084,250,518</u>

Accounts receivable amounts include due from related parties of SR 3,828,229 (2019: SR 3,520,015).

The ageing of trade receivables is as follows:

	<u>Total</u>	<u>Age bracket</u>				
		<u>0 to 90 days</u>	<u>91-180 days</u>	<u>181-270 days</u>	<u>271-365 days</u>	<u>More than 365 days</u>
2020	877,006,763	818,623,722	11,178,135	6,745,703	3,954,393	36,504,810
2019	1,198,964,656	815,121,748	264,752,001	30,526,937	75,445,637	13,118,333

Expected credit loss assessment for trade and other receivables:

The Group applies the simplified approach of IFRS 9 to measure expected credit losses, which are used specifically for the lifetime expected credit losses for all financial assets measured at amortized cost.

The key inputs into the measurement of ECL are the following variables:

- **Probability of default using a statistical model (i.e. normal distribution curve)**
- GDP of the Kingdom of Saudi Arabia, the rate of inflation and Saudi government spending, as variables of the macroeconomic, to calibrate the historical loss rate.

The movement in allowance for expected credit losses for trade receivables is as follows:

	<u>2020</u>	<u>2019</u>
1 January	114,714,138	81,288,530
Allowance / (reversal of) allowance for expected credit losses *	<u>(12,139,922)</u>	33,455,516
Utilization of provisions during the year	<u>(44,552,760)</u>	-
Exchange translation differences	-	(29,908)
31 December	<u>58,021,456</u>	<u>114,714,138</u>

* The balance of the provision made during the year included an allowance for doubtful debts related to a customer of SR 34 million representing 100% of the customer's debt for which the Group has made as at 31 December 2020, which is currently being worked on to find a final settlement of the full debt through the Company's legal advisor.

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For the year ended 31 December 2020**(All amounts are expressed in Saudi Riyals unless otherwise stated)****17- CASH AND CASH EQUIVALENTS**

	<u>2020</u>	<u>2019</u>
Bank balances	63,745,656	53,121,000
Cash in hand	507,101	493,705
	<u>64,252,757</u>	<u>53,614,705</u>

18- POST-EMPLOYMENT BENEFITS OBLIGATIONS

The Group operates defined benefit plans in line with the labor law requirements in the countries where the Group's entities operate. The payments under this plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment.

The employment benefits plans are unfunded.

Opening balance in the consolidated statement of financial position

The amounts recognized in the consolidated statement of financial position and the movements in the net defined benefits obligations during the year are as follows:

	<u>2020</u>	<u>2019</u>
1 January	96,146,476	102,236,115
Current service cost	9,136,629	13,270,128
Interest cost	2,493,000	3,700,000
Paid during the year	(10,961,267)	(12,115,819)
Actuarial gains	(388,095)	(10,938,773)
Exchange translation differences	-	(5,175)
31 December	<u>96,426,743</u>	<u>96,146,476</u>

Significant actuarial assumptions

The significant actuarial assumptions used were as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	2.90%	2.70%
Salary growth rate	2.00%	2.00%

Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the weighted key assumptions made is as follows:

	Change	Impact on the balance of the defined benefit obligation in 2020	
		Increase in assumption	Decrease in assumption
Discount rate	1%	(83,264,000)	(96,935,000)
Salary growth rate	1%	(96,928,000)	(83,152,000)
Impact on the balance of the defined benefit obligation at 2019			
	Change	Increase in assumption	Increase in assumption
Discount rate	1%	(84,937,000)	(84,937,000)
Salary growth rate	1%	98,028,000	98,028,000

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For the year ended 31 December 2020**(All amounts are expressed in Saudi Riyals unless otherwise stated)****18- POST-EMPLOYMENT BENEFITS OBLIGATIONS (CONTINUED)**

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to happen, and changes in some assumptions may be related to others. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognized in the consolidated statement of financial position.

19- ISLAMIC FINANCE FACILITIES

The Group entered into credit facilities agreements with several local banks to support working capital during the year with a total amount of SR 2.6 billion (2019: SR 2,9 billion) at Islamic Murabaha interest rates agreed upon with the banks.

All credit facilities were granted according to promissory notes approved by some members of the Board of Directors according to the authorities granted to them and approved by the Board of the Company. Interest rates on short-term loan are linked to the SIBOR plus a variable rate during the year.

	<u>2020</u>	<u>2019</u>
1 January	1,209,531,500	853,550,000
Withdrawn during the year	2,746,225,000	2,924,411,500
Paid during the year	(3,097,081,500)	(2,568,430,000)
31 December	<u>858,675,000</u>	<u>1,209,531,500</u>

20- PROVISIONS

	<u>2020</u>	<u>2019</u>
Provision for onerous contracts (20.1)	105,830,803	55,438,185
Provision for lawsuits (20.2)	4,473,937	4,473,937
	<u>110,304,740</u>	<u>59,912,122</u>

20.1 A provision of SR 105,830,803 (2019: SR 55,438,185) has been created by the Group in relation to the contracts as the current commitment of some of these contracts entered into with the Group's customers (onerous contracts) that will require cash outflows to settle these contracts due to increased copper and aluminum prices (used in cable products) during the year.

20.2 This provision represents the management's best estimate against a lawsuit filed against the Group by one of its clients.

21- ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>2020</u>	<u>2019</u>
Advances from customers	36,894,194	37,082,465
Employees related accruals	18,304,131	12,182,507
Accrued project expenses	3,271,415	4,946,946
Accrued expenses	28,613,635	30,861,661
Accrued VAT	20,799,066	6,647,736
	<u>107,882,441</u>	<u>91,721,315</u>

22- TRADE PAYABLES

	<u>2020</u>	<u>2019</u>
Trade payables	<u>127,607,217</u>	<u>90,017,183</u>

- Accounts payable amounts include due to related parties of SR 26,544 (2019: SR 24,822).

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For the year ended 31 December 2020**(All amounts are expressed in Saudi Riyals unless otherwise stated)****23- REVENUE**

	For the year ended 31 December	
	2020	2019
Sale of goods	4,076,598,020	4,468,908,758
Contract revenue	10,218,120	96,767,396
	4,086,816,140	4,565,676,154

24- SELLING AND DISTRIBUTION EXPENSES

	For the year ended 31 December	
	2020	2019
Salaries and employees' related benefits	41,070,972	42,815,636
Cargo charges	30,218,853	32,611,197
Sales commission	1,470,436	4,338,656
Advertising and showrooms expenses	1,612,821	4,044,867
Rental expenses	1,664,158	1,736,783
Inspection and quality testing expenses	732,261	727,220
Insurance expense	1,404,324	891,922
Depreciation expense	930,901	688,569
Communication expenses	374,726	784,274
Other expenses	7,530,165	9,325,853
	87,009,617	97,964,977

25- GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2020	2019
Salaries and employees' related benefits	61,062,514	58,290,446
Legal and Professional	4,561,542	11,801,325
Depreciation expense	7,220,998	4,514,111
Maintenance and repair expense	2,087,223	2,637,713
Travel and insurance expense	530,906	1,208,368
Communications and network expense	854,327	624,526
Offices supplies expenses	368,955	88,190
Other expenses	7,810,682	5,954,674
	84,497,147	85,119,353

26- OTHER INCOME – NET

	For the year ended 31 December	
	2020	2019
Gain / (loss) on disposal of fixed assets	68,000	(268,180)
Foreign exchange losses	(6,679,439)	(752,109)
Others	15,211,568	16,040,099
	8,600,129	15,019,810

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For the year ended 31 December 2020**(All amounts are expressed in Saudi Riyals unless otherwise stated)****27- FINANCE COSTS**

	For the year ended 31 December	
	2020	2019
Bank interest	24,557,668	40,179,926
Bank commissions	8,024,310	4,898,589
Interest on employees' defined benefits obligations	2,493,000	3,700,000
Interest on lease liabilities	275,566	840,508
	<u>35,350,544</u>	<u>49,619,023</u>

28- ZAKAT AND INCOME TAX*Zakat and income tax status*

The Group received a final assessment up to 31 December 2015. The assessments for years 2016 through 2019 are still under review by the Zakat, Tax and Customs Authority ("ZATCA").

Zakat and income tax have been calculated on the separate financial statements of the Group companies. Zakat due to Saudi shareholders and tax due to foreign shareholders have been calculated according to the separate financial statements of each company in the Group.

The Company's shareholders structure has been changed as a result of foreign shareholders entering the shareholding structure as of 1 April 2017.

Accordingly, Zakat due from Saudi shareholders and tax due from foreign shareholders are calculated and charged in accordance with separate financial statements of the Group's companies.

The Group's entities received Zakat and income tax certificates stating that these entities filed their tax and Zakat returns to Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia up to the year ended 31 December 2020 and received the required receipts and certificates.

Furthermore, the Group received Zakat certificate for the year 2020 valid up to 30 April 2022.

- The Group has calculated the deferred tax and it has not been recorded, as its amount is not material to the consolidated financial statements.

Provision for Zakat and income tax

The movement in zakat and income tax provision for the years ended 31 December 2020 and 2019 is as follows:

	For the year ended 31 December	
	2020	2019
1 January	22,123,551	20,402,587
Provision for the year	32,136,967	31,875,390
Adjustments	-	(5,167,081)
Payments made during the year	(24,838,243)	(24,987,345)
31 December	<u>29,422,275</u>	<u>22,123,551</u>

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For the year ended 31 December 2020**(All amounts are expressed in Saudi Riyals unless otherwise stated)****29- RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties of the Company consist of the shareholders, key management personnel, directors, and companies which are directly or indirectly controlled or influenced by the shareholders, directors, key management personnel.

The Group transacts with different related parties in ordinary course of its business. Transactions are entered into with the related parties on the terms and conditions approved by the Group's management or its board of directors.

Related party balances

Amounts due from / (to) related parties resulting from transactions with related parties are as follows:

	<u>Nature of relationship</u>	<u>2020</u>	<u>2019</u>
Advances to purchase financial assets - due from a related party			
Al-Atheer Real Estate Development Company *	Joint management	-	21,000,000
Due from related parties - classified as trade receivables			
Serra Holding Group	One of the shareholders is a member of the Board of Directors of the company	26,544	24,822

* During 2019, Riyadh Cables Group Company has paid an amount of SR 21 million to Al-Atheer Real Estate Development Company, as a down payment for a joint investment with Abdul Qadir Al-Muhaidib & Sons Company "a shareholder" and Al-Atheer International Limited "a related party". During 2020, the amount was recovered and the outstanding balance was settled as the proposed investments were not agreed upon.

**Due from related parties -
classified as trade receivables**

	<u>Nature of relationship</u>	<u>2020</u>	<u>2019</u>
Thabat Contracting Company	Owned by one of the shareholders	1,516,052	1,468,608
Masdar Building Material Company	Owned by one of the shareholders	2,312,177	2,051,407
		<u>3,828,229</u>	<u>3,520,015</u>

Transaction with related parties

Transactions with a related party that have been performed during the year, in the ordinary course of business, are summarized below:

	<u>Nature of relationship with related parties</u>	<u>Nature of transaction</u>	<u>2020</u>	<u>2019</u>
Masdar Building Material	Owned by a shareholder	Purchases	1,150,737	1,427,914
Masdar Building Material	Owned by a shareholder	Sales	16,570,192	13,267,861
Serra Holding Group	One of the shareholders is a member of the Board of Directors of the company	Purchases	1,722	53,940
Thabat Contracting Company	Owned by a shareholder	Sales	6,357,583	9,845,002

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For the year ended 31 December 2020**(All amounts are expressed in Saudi Riyals unless otherwise stated)****29. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)****Key management personnel remuneration**

The remuneration of the board of directors and other key management personnel during the year are as follows:

	<u>2020</u>	<u>2019</u>
Salaries and short-term benefits	16,363,226	18,795,600
Post-employment benefits	346,875	398,125
	<u>16,710,101</u>	<u>19,193,725</u>

30. SHARE CAPITAL

At 31 December 2020 and 2019, the Company's share capital consists of 150 million shares at SR 10 each. The total issued capital is SR 1.5 billion. There were no movements in share capital during the year. The Company's shareholder structure includes Saudi and foreign shareholders.

	<u>31 December 2020 and 2019</u>		
	<u>No. of shares</u>	<u>Shareholding</u>	<u>value</u> <u>(SR)</u>
Abdulkadir Al Muhaidib & Sons	46,000,000	30.67%	460,000,000
Ajial Al Hekma Investments Company Ltd.	43,000,000	28.67%	430,000,000
Alma Limited Company	17,854,167	11.9%	178,541,670
Ahmad Samer Zaim	17,854,167	11.9%	178,541,670
Mohammed Hekmat Zaim	7,500,000	5.00%	75,000,000
Mohammed Abdulaziz Altwijri	1,500,000	1.00%	15,000,000
Khader Mohsin Al-Ibraheem	1,500,000	1.00%	15,000,000
Ihsan Zaim	4,437,500	2.96%	44,375,000
Rana Hamdi Zaim	5,177,083	3.45%	51,770,830
Leena Hamdi Zaim	5,177,083	3.45%	51,770,830
	<u>150,000,000</u>	<u>100%</u>	<u>1,500,000,000</u>

31. STATUTORY RESERVE

In accordance with the Regulations for Companies in Kingdom of Saudi Arabia, the Group has established a statutory reserve by the appropriation of 10% of net income for the year until such reserve equals 30% of the share capital.

32. DIVIDENDS

- During 2020, the Company has distributed an amount of SR 178,5 million, based on the minutes of the Ordinary General Assembly meeting held on 25 June 2020, an amount of (SR 165 million) and based on the minutes of the Board of Directors dated 21 September 2020, an amount of (SR 13,5 million).
- During the year 2019, the Company distributed SR 230 million, based on the minutes of the Ordinary General Assembly meeting held on 25 June 2019, an amount of (SR 200 million) and based on the minutes of the Board of Directors dated 14 October 2019, an amount of (SR 30 million).

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33. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, the most important of which are the risks listed below:

Credit risk

Liquidity risk

Market risk (currency risk, interest rate risk and commodity risk)

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital, in addition to the quantitative disclosures included in these consolidated financial statements.

Risk management framework

The Board of Directors is full responsible for the establishment and oversight of the Group's risk management framework. The board of directors has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee will report regularly to the board of directors on its activities.

The Group's current risk management policies are established to identify and analyze the risks faced by the Group, so as to set appropriate risk limits and controls, and to monitor risks and abide by limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group, through its training and establishment of standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee of the Group oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The internal audit provide assistance to the audit committee of the Group in its control role. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which will be reported to the audit committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables and cash at banks.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management takes into account the demographics of the Group's customer base, including the default risks for the industry and the country in which customers operate, as these factors may have an impact on credit risk, especially in current economic conditions. Geographically, there is no concentration of credit risk.

The Group only transacts with known and creditworthy third parties. It is the Group's policy that all customers who wish to transact on credit terms are subject to credit verification procedures. Credit quality of the customer is assessed based on an extensive credit rating scorecard. In addition, the receivables balances are continuously monitored, resulting in the Group being exposed to bad debts is not material.

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For the year ended 31 December 2020**(All amounts are expressed in Saudi Riyals unless otherwise stated)****33. FINANCIAL RISK MANAGEMENT (CONTINUED)****Credit risk (continued)**

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers using on internal and external rating criteria. Credit quality of the customer is assessed based on an extensive credit rating scorecard. Outstanding customer receivables are monitored regularly.

The Group establishes an allowance for trade receivables impairment that represents its estimate of lifetime expected credit losses on trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified individually, and other is collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The other categories of financial events do not result in significant credit risk.

The table below shows the credit quality details of the Group's receivables by credit risk rating scores:

	<u>For the year ended 31 December</u>	
	<u>2020</u>	<u>2019</u>
Less than 3 months	818,623,722	815,121,748
More than 3 months and less than 6 months	11,178,135	264,752,001
More than 6 months and less than one year	10,700,096	105,972,574
More than 1 year	36,504,810	13,118,333
31 December	<u>877,006,763</u>	<u>1,198,964,656</u>

The provision for impairment losses in receivables is as follows:

	<u>For the year ended 31 December</u>	
	<u>2020</u>	<u>2019</u>
Allowance for expected credit losses	<u>(58,021,456)</u>	<u>(114,714,138)</u>

For trade receivables, the Group applies the simplified approach of IFRS 9 to measure expected credit losses, which are used specifically for the expected credit losses for all financial assets measured at amortized cost.

The key inputs into the measurement of ECL are the following variables:

- **Probability of default using a statistical model (i.e. normal distribution curve)**
- GDP of the Kingdom of Saudi Arabia, the rate of inflation and Saudi government spending, as variables of the macroeconomic, to calibrate the historical loss rate.

For cash at banks, cash and cash equivalents are deposited with banks with a high credit rating. The Group regularly updates its cash flows. Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers using on internal and external rating criteria. Outstanding customer receivables are monitored regularly.

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For the year ended 31 December 2020**(All amounts are expressed in Saudi Riyals unless otherwise stated)****33. FINANCIAL RISK MANAGEMENT (CONTINUED)****Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Furthermore, the Group maintains various credit methods.

The table below summarizes the maturity terms of the Company's financial liabilities based on contractual undiscounted payments:

31 December 2020	Less than one year	After one year but not more than 5 years	More than 5 years	Carrying amount
Short-term Islamic finance facilities	858,675,000	-	-	858,675,000
Trade payables	127,607,217	-	-	127,607,217
Lease liabilities	12,485,990	-	-	12,485,990
Accruals and other payables	107,882,441	-	-	107,882,441
	1,106,650,648	-	-	1,106,650,648

31 December 2019	Less than one year	After one year but not more than 5 years	More than 5 years	Carrying amount
Short-term Islamic finance facilities	1,209,531,500	-	-	1,209,531,500
Trade payables	90,017,183	-	-	90,017,183
Lease liabilities	14,688,043	-	-	14,688,043
Accruals and other payables	91,721,315	-	-	91,721,315
	1,405,958,041	-	-	1,405,958,041

Market risk

Market risk is the risk that changes in market prices such as currency rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable standards, while optimizing the return.

The Group purchases financial derivatives and uses its financial obligations to manage market risks. All these transactions are carried out within the guidelines set by the Board of Directors.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group, which is primarily Saudi Riyals.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances, in addition to buying derivative instruments.

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33. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

The following table demonstrates the sensitivity of the Group to a reasonably possible change in the Saudi Riyals against USD - EUR, by 5% higher or lower with all other variables held constant, of the Group's monetary assets and liabilities:

	Income /(loss) through statement of profit or loss and other comprehensive income for the year ended 31 December 2020 USD sensitivity in SAR thousands	Income /(loss) through statement of profit or loss and other comprehensive income for the year ended 31 December 2020 EUR sensitivity in SAR thousands
<i>Increase by 5%</i>	77,046	(113,487)
<i>Decrease by 5%</i>	(77,046)	113,487
	Income /(loss) through statement of profit or loss and other comprehensive income for the year ended 31 December 2019 USD sensitivity in SAR thousands	Income /(loss) through statement of profit or loss and other comprehensive income for the year ended 31 December 2019 EUR sensitivity in SAR thousands
<i>Increase by 5%</i>	1,550,033	(158,903)
<i>Decrease by 5%</i>	(1,550,033)	158,903

The Group's exposure to foreign currency risk at the end of the reporting year, expressed in SR, was as follows:

	2020				2019			
	Trade receivables	Trade payables	Cash and cash equivalents	Credit facilities Short- term	Trade receivables	Trade payables	Cash and cash equivalents	Credit facilities Short- term
USD	71,426,180	69,885,254	22,719,245	21,500,000	74,249,888	43,250,010	14,856,232	-
EUR	97,543	2,367,279	315,057	-	-	3,176,934	231,076	-
CHF	-	636	47,160	-	-	52,411	173,565	-
Pound sterling	-	5,912	394,448	-	-	185,078	514,886	-
BHD	16,271,423	15,943	210,635	-	4,971,029	-	473,694	-
KWD	30,242,292	1,649,062	4,188,911	-	26,094,870	1,994,193	763,106	-
OMR	769,634	-	120,665	-	7,972,542	-	343,094	-
QAR	-	-	171,484	-	159,460	-	171,491	-
AED	120,829,822	534,219	3,950,269	-	163,598,340	823,662	980,787	-
Iraqi Dinar Egyptian Pound	15,025,881	-	-	-	98,846,802	-	-	-
	-	-	2,884,723	-	-	-	583,441	-

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate, because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates is primarily related to the Group's long-term loans with floating interest rates obtained from the holding company.

To reduce volatility and increase predictability of interest expenses, the Group may use debt issuance or enter into simple financial derivatives such as interest rate swaps.

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For the year ended 31 December 2020**(All amounts are expressed in Saudi Riyals unless otherwise stated)****33. FINANCIAL RISK MANAGEMENT (CONTINUED)****Interest rate risk (continued)**

The Group's exposure to the risk of changes in the interest rate market mainly due to loans. Loans at variable rates expose the Group to a change in cash flows as a result of changes in interest rates.

The Group's exposure to risk of changes in interest rates is as follows:

	<u>For the year ended 31 December</u>	
	<u>2020</u>	<u>2019</u>
Variable interest rate loans	<u>858,675,000</u>	<u>1,209,531,500</u>

Interest rate sensitivity

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) gains or losses by the amounts shown below. The analysis assumes that all other variables, especially the foreign exchange rate, remain constant.

	<u>Statement of profit or loss</u>	
31 December 2020	<u>Increase by 100 points</u>	<u>Decrease by 100 points</u>
Variable interest rate loans	<u>85,867,500</u>	<u>(85,867,500)</u>
Change in cash flows	<u>85,867,500</u>	<u>(85,867,500)</u>

	<u>Statement of profit or loss</u>	
31 December 2019	<u>Increase by 100 points</u>	<u>Decrease by 100 points</u>
Variable interest rate loans	<u>12,095,315</u>	<u>(12,095,315)</u>
Change in cash flows	<u>12,095,315</u>	<u>(12,095,315)</u>

Commodity risk

The Group is exposed to the impact of market fluctuations on the prices of various inputs to production including aluminum and copper. The Group manages some key elements of commodity price risk through the use of fixed-price forward contracts.

34- CAPITAL MANAGEMENT**Risk management**

Capital is equity attributable to the equity holders of the Group. The primary objective to the Group's capital management is to support its business and maximize shareholder value.

The policy of the Board of Directors is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the Company. The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions.

The Board of Directors monitors the return on capital, which the Group defines as result from operating activities divided by adjusted total equity.

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35- CAPITAL MANAGEMENT (CONTINUED)**Risk management (continued)**

The Board of Directors also monitors the level of dividends to shareholders. There were no changes in the Group's approach to capital management during the year. Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements. The Group's debt to adjusted capital ratio at the end of the reporting year was as follows:

	<u>2020</u>	<u>2019</u>
<i>Total liabilities</i>	<u>1,342,804,406</u>	1,584,016,830
<i>Less: cash and cash equivalents</i>	<u>(64,252,757)</u>	(53,614,705)
<i>Adjusted net debt</i>	<u>1,278,551,649</u>	<u>1,530,402,125</u>
<i>Total equity</i>	<u>1,959,325,547</u>	<u>1,919,260,957</u>
<i>Adjusted equity and net debt</i>	<u>3,237,877,196</u>	<u>3,449,663,082</u>
<i>Adjusted debt ratio from adjusted equity ratio</i>	<u>39%</u>	<u>44%</u>

35. CONTINGENCIES AND COMMITMENTS*Capital commitments*

At 31 December 2020, the Group has commitments of SR 24 million (31 December 2019: SR 14.6 million) relating to capital expenditures.

Legal claim contingency

The Group faces, in its ordinary course of business, lawsuits, which are under litigation. While the ultimate results of these matters cannot be determined with certainty, the Group's management does not expect that they will have a material adverse effect on the consolidated financial statements of the Group.

Contingent liabilities

The contingent liabilities amounted to SR 457 million (31 December 2019: SR 622 million) against bank facilities in the form of letters of credit and letters of guarantee obtained by the Group from several local banks against a commission for granting facilities without any bank cover.

36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors on 3 Dhul Qadah 1442H (corresponding to 13 June 2021).