UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH INDEPENDENT AUDITOR’S REPORT

UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of United Electronics Company, a Saudi Joint Stock Company (the "Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter listed below, our description on how our audit have addressed this matter is set below:

INDEPENDENT AUDITOR'S REPORT - ***Continued***

Key Audit Matters - ***Continued***

Key Audit Matter	**How our audit addressed the key audit matter**
1- Revenue Recognition and Information Technology (IT) systems	
As of December 31, 2019, the Group had recognized revenue of SR 5,135 million (2018: SR 4,394 million). We consider revenue a key audit matter being the key business element for the operations of the Group. Additionally, a significant part of the Group's revenue is heavily reliant on IT systems with automated processes and controls over the capture, storage, extraction, and integration of information. A fundamental component of these processes and controls is to ensure that appropriate user access, system integration, financial reporting and change management protocols and other related automated process controls exist, and are being adhered to. Hence, there is a risk that management may override these controls and processes as result of constant pressure on the Group to meet the expected sales targets which may result in misstatement of revenue. Refer to the note 3, to the consolidated financial statements for the accounting policy related to revenue recognition.	We performed the following procedures in relation to revenue recognition: • Focused our audit on those IT systems and controls that are significant for the Group's sales processes. We involved IT specialists in our audit as audit procedures over IT systems and controls require specific expertise. • Assessed and tested the design and operating effectiveness of the Group's IT controls over sales, including those over user access, system integration, and change management, data reliability, data extraction, data interface, integration and financial reporting, in addition to other analytical procedures over the revenue processes. • Assessed the appropriateness of the group's revenue recognition policies in relation to the requirements of relevant accounting standards. • Assessed the design and operating effectiveness of controls associated with the revenue function including sales modules, automated and manual controls and other related aspects; • Performed detailed analytical review for the various elements of revenue / sales; • Validated the amortization of extended warranty revenue by reviewing warranty services contacts to ensure that revenue has been recorded correctly. • Validated the amortization of installment sales and Islamic financing revenue by reviewing installment sales and Islamic financing contracts to ensure that revenue has been recorded correctly. • Performed test of details in addition to test of controls where deemed necessary.

INDEPENDENT AUDITOR'S REPORT - ***Continued***

Key Audit Matters - ***Continued***

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">2- IFRS 9– "Financial instruments" and impact on the impairment of financial assets</td></tr>
<tr><td>This standard provides the guidance relates to the classification and measurement of financial instruments. The basis of classification depends on the business model based on which the financial assets are managed together with its relevant contractual cash flow characteristics. IFRS 9 requires "Expected Credit Loss" model (ECL) for the calculation of allowance for impairment for financial assets.

We consider this matter as a key audit matter due to level of significant judgement and assumption used by management in the calculation of impairment of financial assets based on its ECL model.

Refer to note 3, to the consolidated financial statements for the accounting policy related financial instruments policies for impairment allowances.</td><td>We performed the following procedures as part of our audit:

• Evaluated the appropriateness of the application of expected credit loss model prepared, by the independent consultant of the Group, for the relevant financial assets by understanding the nature of the financial assets and comparing the the application to the requirements of the standard.

• Verified the data inputs in assessing the reasonableness of the probability of defaults (PDs) against source documents.

• Tested the Loss Given Default (LGDs) in the ECL calculation for a sample of instruments.

• Tested key assumptions, such as those used to calculate the likelihood of default and the subsequent loss on default, by comparing to the historical data. We also considered the incorporation of forward looking factors (predominantly economic) to reflect the impact of future events as expected credit losses.

• Reviewed the adequacy and appropriateness of the disclosures as presented in the accompanying consolidated financial statements.</td></tr>
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INDEPENDENT AUDITOR'S REPORT - *Continued*

Key Audit Matters - *Continued*

Key Audit Matter	How our audit addressed the key audit matter
3- Inventory valuation	
As at December 31, 2019, the Group held SR 913 million of inventories (2018: SR 791 million) net of allowance for mark down and slow moving inventories. As described in "note 3", inventories are held at the lower of cost and net realizable value. Cost of inventories is determined using the weighted average cost method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale and markdown. The determination of whether the inventory will be realized for a value less than cost requires management to exercise judgment and apply assumptions that are continuously re-assessed. Management undertakes the following procedures for determining the level of mark-down and slow moving allowances required: - Use inventory ageing reports together with historical trends to estimate the likely future salability of slow and older inventory; - Management applies percentages to the inventory to write down based on its aging at year end. The percentages are derived from historical levels of mark down; - Perform line-by-line analysis of remaining inventory to ensure it is stated at the lower of cost and net realizable value and a specific mark down is recognized if required. The relative nature of Group products inventories and its susceptibility to market changes, customers' demands and technological changes may cause significant impact on the value of these products. Consequently, the book value of inventory may be higher than the net realizable value of inventory. We consider this matter as a key audit matter due to the level of significant judgement and assumptions used by management in determining the allowance for mark down and slow moving inventories. Refer to note 3 to the consolidated financial statements for the accounting policy for inventory.	We performed the following procedures over the valuation of inventory: • Validated the consistency of the accounting policy adopted by management. • Re-performed the weighted average cost calculation for a sample of inventory items; • Tested that the ageing report used by management correctly aged inventory items by agreeing a sample of aged inventory items to the last recorded invoices; • Tested the net realizable value of inventory item to recent selling prices on a sample basis; • Evaluated the adopted policy for inventory valuations, mark-down and slow moving; • Assessed the percentage mark-down applied to old inventory with reference to historic inventory mark-down, recoveries on slow-moving inventory. • Re-performed the calculation of the inventory mark-down and slow moving allowance.

INDEPENDENT AUDITOR'S REPORT - ***Continued***

Key Audit Matters - ***Continued***

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">4- Adoption of IFRS 16– "Leases"</td></tr>
<tr><td>The Group adopted IFRS 16 "Leases", effective January 1, 2019 which supersedes the requirement of IAS 17 "Leases".

Management performed a detailed analysis of each lease contract to identify impact of the newly adopted standard, identified the changes required to be made to the existing accounting policies and determined the transition adjustments and changes required to processes and controls particularly in connection with identification of whether an arrangement meets the definition of a lease.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

The Group adopted IFRS 16 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

We considered this as a key audit matter as the assessment of the contracts within the scope of IFRS 16 may not be identified or appropriately included in the calculation of the transitional impact. Additionally, determination of the amounts underlying the right-of-use assets and corresponding lease liabilities involve significant management judgements and estimates relating to the lease term and discount rate.

Refer to note 3 to the consolidated financial statements for the accounting policy related to the right of use assets and leases liability recognized on adoption of IFRS 16 "Leases".</td><td>We performed the following procedures:

• Evaluated the appropriateness of the application of the new standard, by the management of the Group, in terms of recognition, classification, and measurement of right-of-use asset and lease liability as at January 1, 2019.

• Assessed the appropriateness of significant assumptions and judgements related to lease contract term, discount rate, lease payments to determine the right of use assets and lease liabilities and the appropriateness of the discount rate used in a determination of lease liabilities.

• Tested the lease schedules, on a sample basis, by recalculating the amounts underlying the right-of- use assets and lease liabilities, based on the terms of the lease contracts. We also tested the arithmetical accuracy of those lease schedules and how these accumulate into the overall adjustment totals applied in the consolidated financial statements as at January 1, 2019.

• Verified the accuracy of underlying lease data on sample basis by agreeing to lease contracts and other supporting information.

• Reviewed the adequacy and appropriateness of the disclosures as presented in the accompanying consolidated financial statements.</td></tr>
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INDEPENDENT AUDITOR'S REPORT - *Continued*

Other Information included in the group's 2019 annual report

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Group's By-laws and the applicable requirements of Group's regulations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT - *Continued*

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exist related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosure in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Report on Other Legal and Regulatory Requirements

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

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

البسام وشركاه
محاسبون قانونيون
رقم الترخيص ٥٢٠/١١/٣٢٣
C.R.1010385804
license 520/11/323
Al-Bassam & Co.
Certified Public Accountants

Ibrahim A. Al Bassam
License No 337
Al Khobar,
March 5, 2020
Rajab 10, 1441H

UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

	Notes	December 31, 2019 SR	December 31, 2018 SR
ASSETS			
Non-current assets			
Property and equipment	5	477,429,746	456,975,522
Right of use	6	448,471,844	-
Intangible assets	7	56,053,297	41,914,808
Goodwill	8	6,367,451	-
Trade receivables and other assets – Noncurrent portion	9	1,472,172	4,142,495
Investment in installment sales receivables and Islamic financing contracts – Noncurrent portion	10	218,417,961	87,340,613
		1,208,212,471	590,373,438
Current assets			
Inventories	11	913,369,876	791,490,691
Trade receivables and other assets	9	145,864,113	111,026,146
Investment in installment sales receivables and Islamic financing contracts – Current portion	10	264,583,270	262,136,609
Cash and cash equivalents	12	102,971,989	211,206,159
		1,426,789,248	1,375,859,605
TOTAL ASSETS		2,635,001,719	1,966,233,043
EQUITY AND LIABILITIES			
Equity			
Share capital	13	500,000,000	500,000,000
Statutory reserve	14	41,783,373	21,221,944
Other reserves		8,562,248	3,500,412
Retained earnings		129,565,441	140,861,047
Treasury shares	13,29	(20,000,000)	(20,000,000)
		659,911,062	645,583,403
Liabilities			
Non-current liabilities			
Deferred revenue from extended warranty program – Noncurrent portion	16	76,924,519	67,075,257
Deferred revenue from sale and leaseback – Noncurrent portion		-	1,844,179
Operating lease liability – Noncurrent portion		-	16,753,311
Lease liability – Noncurrent portion	17	507,331,165	-
Deferred tax liabilities		1,683,969	638,693
End of service benefits	18	59,900,995	55,815,961
Other liabilities		3,854,086	-
Finance lease – Noncurrent portion		-	423,230
		649,694,734	142,550,631
Current liabilities			
Trade payables and other liabilities	19	808,481,501	655,578,224
Deferred revenue from extended warranty program – Current portion	16	58,363,381	52,396,359
Deferred revenue from sale and leaseback – Current portion		-	136,596
Operating lease liability– Current portion		-	1,964,292
Lease liability – Current portion	17	47,074,296	-
Murabah finance	15	400,000,000	460,000,000
Zakat provision	20	11,476,745	7,900,373
Finance lease – Current portion		-	123,165
		1,325,395,923	1,178,099,009
Total liabilities		1,975,090,657	1,320,649,640
TOTAL EQUITY AND LIABILITIES		2,635,001,719	1,966,233,043

The consolidated financial statements were approved and authorized for issue by the board of directors, on behalf of the shareholders and were signed on their behalf on March 5, 2020.

Chief Financial Officer **Chief Executive Officer** **Chairman**

The accompanying notes 1 to 35 form an integral part of these consolidated financial statement.

UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	For the year ended December 31, 2019 SR	December 31, 2018 SR
Revenue, net	**21,27**	**5,134,603,516**	4,394,080,406
Cost of revenue	**21, 27**	**(4,233,420,483)**	(3,614,467,634)
Gross profit		**901,183,033**	779,612,772
Selling, marketing and distribution expenses	**22**	**(509,190,629)**	(480,492,061)
General and administrative expenses	**23**	**(143,221,986)**	(119,122,146)
Other expenses	**24**	**(3,194,943)**	(1,610,594)
Other income	**25**	**30,512,025**	1,811,685
Finance charges	**26**	**(57,033,545)**	(10,170,222)
Net profit before zakat		**219,053,955**	170,029,434
Zakat	**20**	**(12,394,387)**	(7,963,413)
Deferred tax expense		**(1,045,276)**	(873,992)
Net profit for the year		**205,614,292**	161,192,029
OTHER COMPREHENSIVE INCOME			
Items that may not be reclassified subsequently to profit and loss :			
Re-measurement (loss) gain of end of service benefits	**18**	**(1,035,130)**	1,195,710
Item that may be reclassified subsequently to statement of profit or loss:			
Exchange differences on translation of foreign operations		**96,966**	(7,306)
Other comprehensive (loss) income for the year		**(938,164)**	1,188,404
Total of other comprehensive income for the year		**204,676,128**	162,380,433
Earnings per share attributable to shareholders of the Group:			
Basic earnings per share (Saudi Riyal per share)	**28**	**4.28**	3.36
Diluted earnings per share (Saudi Riyal per share)	**28**	**4.11**	3.22

The consolidated financial statements were approved and authorized for issue by the board of directors, on behalf of the shareholders and were signed on their behalf on March 5, 2020.

Chief Financial Officer	**Chief Executive Officer**	**Chairman**

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

				Other Reserves						
	Note	Share Capital SR	Statutory reserve SR	Other reserves SR	Foreign currency translation reserve SR	Actuarial reserve SR	Total other reserves SR	Retained earnings SR	Treasury shares SR	Total Equity SR
Balance as at January 1, 2018 (Audited)		420,000,000	25,102,741	-	(101,155)	813,163	712,008	120,268,174	-	566,082,923
Adjustment on adoption of IFRS 9		-	-	-	-	-	-	(479,953)	-	(479,953)
Balance as at January 1, 2018 (Adjusted)		420,000,000	25,102,741	-	(101,155)	813,163	712,008	119,788,221	-	565,602,970
Net income for the year		-	-	-	-	-	-	161,192,029	-	161,192,029
Other comprehensive (loss) income for the year		-	-	-	(7,306)	1,195,710	1,188,404	-	-	1,188,404
Transfer to statutory reserve		-	16,119,203	-	-	-	-	(16,119,203)	-	-
Dividends distributed	31	-	-	-	-	-	-	(84,000,000)	-	(84,000,000)
Increase in share capital	1	80,000,000	(20,000,000)	-	-	-	-	(60,000,000)	-	-
Share bases payment expense	29	-	-	1,600,000	-	-	1,600,000	-		1,600,000
Issuance of treasury shares	29	-	-	-	-	-	-	20,000,000	(20,000,000)	-
Balance as at December 31, 2018		500,000,000	21,221,944	1,600,000	(108,461)	2,008,873	3,500,412	140,861,047	(20,000,000)	645,583,403
Balance as at January 1, 2019		500,000,000	21,221,944	1,600,000	(108,461)	2,008,873	3,500,412	140,861,047	(20,000,000)	645,583,403
Adjustment on adoption of IFRS 16	2.4.1	-	-	-	-	-	-	**(83,848,469)**	-	**(83,848,469)**
Balance as at January 1, 2019 (Adjusted)		**500,000,000**	**21,221,944**	**1,600,000**	**(108,461)**	**2,008,873**	**3,500,412**	**57,012,578**	**(20,000,000)**	**561,734,934**
Net income for the year		-	-	-	-	-	-	**205,614,292**	-	**205,614,292**
Other comprehensive income (loss) for the year		-	-	-	**96,966**	**(1,035,130)**	**(938,164)**	-	-	**(938,164)**
Transfer to statutory reserve		-	**20,561,429**	-	-	-	-	**(20,561,429)**	-	-
Dividend distributed	31	-	-	-	-	-	-	**(112,500,000)**	-	**(112,500,000)**
Share based payment expense	29	-	-	**6,000,000**	-	-	**6,000,000**	-	-	**6,000,000**
Balance as at December 31, 2019		**500,000,000**	**41,783,373**	**7,600,000**	**(11,495)**	**973,743**	**8,562,248**	**129,565,441**	**(20,000,000)**	**659,911,062**

The consolidated financial statements were approved and authorized for issue by the board of directors, on behalf of the shareholders and were signed on their behalf on March 5, 2020.

Chief Financial Officer **Chief Executive Officer** **Chairman**

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	December 31, 2019	December 31, 2018
	SR	SR
Cash flows from operating activities:		
Net profit for the year	**205,614,292**	161,192,029
Adjustments for:		
Depreciation of property and equipment	**42,637,345**	35,017,145
Amortization of intangible assets	**8,437,668**	5,720,821
Loss from disposal of property and equipment	**10,384**	480,813
Property and equipment written off	**-**	165,399
Right of use depreciation	**48,618,467**	-
Deferred revenue on sale and leaseback	**-**	(136,596)
Deferred revenue from extended warranty program	**15,816,284**	8,443,322
Finance charges	**57,033,545**	10,170,222
Allowance for impairment recognized on Investment in installment sales receivables and Islamic financing contracts	**12,472,926**	13,906,799
Allowance for impairment recognized on trade receivables and other assets, net	**-**	786,938
Allowance for impairment recognized against inventories	**8,293,656**	10,785,836
Zakat expense	**12,394,387**	7,963,413
End of service benefits	**11,848,531**	10,797,533
Gain on factorization of installment sales receivables, net	**(17,471,075)**	-
Share based payment expense	**6,000,000**	1,600,000
Operating lease liability	**-**	2,449,218
Deferred tax expense	**1,045,276**	873,992
	412,751,686	270,216,884
Changes in:		
Trade receivables and other assets	**(49,531,707)**	(36,466,791)
Investment in installment sales receivables and Islamic financing	**(275,775,543)**	(211,532,261)
Inventories	**(130,172,841)**	63,434,605
Trade payables and other liabilities	**146,063,037**	(34,006,885)
Cash generated from operations	**103,334,632**	51,645,552
End of service benefits paid	**(9,973,882)**	(10,303,286)
Finance charges paid	**(15,047,750)**	(10,170,222)
Zakat paid	**(8,818,015)**	(5,451,533)
Net cash generated from operating activities	**69,494,985**	25,720,511
Cash flows from investing activities		
Additions to property and equipment	**(78,199,037)**	(59,517,638)
Proceeds from disposal of property and equipment	**213,201**	257,160
Additions to intangible assets	**(8,423,552)**	(8,360,022)
Investment in a subsidiary	**(5,000,000)**	-
Net cash used in investing activities	**(91,409,388)**	(67,620,500)
Cash flows from financing activities:		
Drawdown of Murabaha loan	**2,575,200,000**	1,405,000,000
Repayment of Murabaha loan	**(2,635,200,000)**	(1,145,000,000)
Dividend paid	**(112,500,000)**	(84,000,000)
Repayment of finance lease	**-**	(47,155)
Repayment of lease liability	**(74,672,731)**	-
Cash received from factorization of installment sales receivables, net	**160,024,828**	-
Net cash (used in) generated from financing activities	**(87,147,903)**	175,952,845

UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS – (*Continued)*
FOR THE YEAR ENDED DECEMBER 31, 2019

	December 31, 2019	December 31, 2018
	SR	SR
Net change in cash and cash equivalents	**(109,062,306)**	134,052,856
Effects of foreign exchange translation on cash and cash equivalents	**96,966**	(7,306)
Cash acquired on acquisition of a subsidiary	**731,170**	-
Cash and cash equivalent at the beginning of the year	**211,206,159**	77,160,609
Cash and cash equivalents at end of the year	**102,971,989**	211,206,159
Non-cash transaction :		
IFRS 16 – Lease liability	**524,302,868**	-
IFRS 16 – Right of use	**437,477,458**	-
Impact of adoption of IFRS 16 on equity	**83,848,469**	-
Addition in right of use / lease liability	**62,354,528**	-
IFRS 16 - Transfer of operating lease liability	**18,717,603**	-
IFRS 16 - Transfer of prepayments related to lease	**18,267,832**	-
Transfer of intangible assets from Capital work in progress	**14,038,009**	-
Adjustment in right of use with trade payables	**2,741,676**	-
IFRS 16 - Sales and lease back adjustment	**1,980,775**	-
Property and equipment written off	**1,373,376**	5,084,199
IFRS 16 - Transfer of finance lease liability	**546,395**	-
Property and equipment acquired on finance lease	**435,000**	470,400
Insurance claim receivable for property and equipment	**-**	3,182,137
Insurance claim receivable for inventories	**-**	16,311,055
Impact of adoption of IFRS 9	**-**	479,953
Additions on acquisition of a subsidiary		
Trade payables and other liabilities	**2,034,233**	-
End of service indemnities	**1,175,255**	-
Trade receivables and other assets	**903,769**	-
Intangible assets	**114,596**	-
Property and equipment	**92,502**	-

The consolidated financial statements were approved and authorized for issue by the board of directors, on behalf of the shareholders and were signed on their behalf on March 5, 2020.

Chief Financial Officer	**Chief Executive Officer**	**Chairman**

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

The Company's principal activities are the wholesale and retail trade in foodstuff, electric appliances, electronic gadgets, computers and their spare parts and accessories, furniture, office equipment and tools, car recorder installations, maintenance and repair services, establishment of restaurants, mobile, chips and third-party marketing.

On 8 Muharam 1440H (corresponding to September 18, 2018) the Extraordinary General Meeting approved the increase of the Company's share capital by SR 80 million via a transfer from the retained earnings and the statutory reserve of the fiscal year ended 31 December 2017. Accordingly, the share capital increased from SR 420 million to SR 500 million, and number of shares increased from 42 million shares to 50 million shares. Details of increase are as follow:

a) Distribution of 6 million shares as bonus shares to the shareholders at one share for every seven existing shares which represents an increase of 14.29% of the company's share capital, and will be entitled to the shareholders registered at the end of the date of the meeting (registered shareholders in the Company's shareholding register with the Securities Depository Center at the end of the second trading day following the day of the Extraordinary General Meeting).

b) Allocation of 2 million shares representing 4.76% of the Company's share capital to establish the employees' stock program (long-term incentive plan).

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

1.1. Structure of the group

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

Name of consolidated subsidiaries	Effective ownership 2019	Effective ownership 2018
1- United Electronics Company Extra S.P.C., a Co. registered in Bahrain	100%	100%
2- United Electronics Company Extra L.L.C., a Co. registered in Oman	100%	100%
3- United Company for Maintenance Services, a Co. registered in Kingdom of Saudi Arabia	100%	100%
4- United Company for Financial Services. a Co. registered in Kingdom of Saudi Arabia	100%	100%
5- Procco Financial Services W.L.L. registered in Kingdom of Bahrain	100%	-

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

1- United Electronics Company-Extra S.P.C., is registered in Bahrain on 15 Dhul-Qa'da l432H (corresponding to October 13, 2011). The principal activities of this subsidiary are importing, exporting and trading of electrical and electronics devices and their spare parts, computers and accessories, selling video and audio media materials, importing and exporting computer software and hardware, importing and exporting electronic games, providing maintenance for electric devices in addition to management and development of personal properties.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

1.1 Structure of the group (Continued)

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

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

4- During the year 2018, the Company invested SR 150 million to establish a new Company under the name “United Company for Financial Services”. The principal activities of this subsidiary are to exercise consumer finance in the Kingdom of Saudi Arabia in accordance with implementation regulations of the finance lease law and its Sharia compliant.

5- During the financial year ended December 31, 2019, the Company invested SR 5 million to acquire a Company under the name “Procco Financial Services W.L.L”. The principal activities of this subsidiary is to provide technical services to financial institutions and other companies. The operations of the Company are subject to the approval of Central Bank of Bahrain in Kingdom of Bahrain. The Group has recognized Goodwill of SR 6,367,451 as a result of this acquisition which represents the excess consideration over the provisional net assets acquired. The detailed analysis of the net liabilities and goodwill on the acquisition of the subsidiary are presented in the note 8 to the accompanying consolidated financial statements.

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

As at December 31, 2019, the Group had a total of 50 branches (December 31, 2018: 44 branches) out of which 45 operational branches are in the Kingdom of Saudi Arabia (December 31, 2018: 41 branches).

These consolidated financial statements are presented in Saudi Riyals, which is the Group's functional and presentation currency. Figures have been rounded off to the nearest Riyal.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Preparation of the consolidated financial statements

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

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

2. BASIS OF PREPARATION (Continued)

2.3 Basis of consolidation

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

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

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

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

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Company, other vote holders or other parties;

- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

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

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

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

2. BASIS OF PREPARATION (Continued)

2.3.2 Business combination and goodwill

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

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

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

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

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

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

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

2. BASIS OF PREPARATION (Continued)

2.4 New standards, amendments to standards and interpretations

2.4.1 New standards, amendments to standards and interpretations adopted by the Group

IFRS 16 - Leases

The Group adopted IFRS 16 "Leases" from January 1, 2019. IFRS 16 replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

IFRS 16 'Leases' introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The group has adopted IFRS 16 retrospectively, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

On adoption of IFRS 16, the group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was from 6.48% to 11.21%.

	2019 SR
Operating lease commitments as at 31 December 2018	982,335,114
Lease liability recognized as at 1 January 2019 **(**Discounted using the lessee's incremental borrowing rate of at the date of initial application)	523,756,473
Transfer of finance lease	546,395
	524,302,868
Of which are:	
Current lease liabilities	31,855,212
Non-current lease liabilities	492,447,656

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 31 December 2018.

The change in accounting policy affected the following items in the statement of financial position on January 1,2019:

- right-of-use assets – increase by SR 437,477,458
- operating lease liability – decrease by SR 18,717,603
- prepayments – decrease by SR 18,267,832
- lease liabilities – increase by SR 524,302,868
- finance lease liability – decrease by SR 546,395
- deferred revenue on sale and leaseback – decreased by 1,980,775
- The net impact on retained earnings on January 1, 2019 was a decrease of SR 83,848,469

The accounting policies for the right of use assets and lease liabilities are explained in note 3 of the consolidated financial statements.

2. BASIS OF PREPARATION (Continued)

2.4 New standards, amendments to standards and interpretation (Continued)

2.4.1 New standards, amendments to standards and interpretation adopted by the Group (Continued)

Other amendments
A number of other new standards amendments to standards, enlisted below, are effective from January 1, 2019 but they do not have a material effect on the Group's Financial Statements.

IFRS 9 - Amendments, Prepayment features with negative compensation
IAS 28 - Amendment, long-term Interests in Associates and Joint Ventures
IAS 19 - Plan Amendment, Curtailment or Settlement
IFRIC 23 - Uncertainty over Income Tax Treatments
IFRSs 2015–2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

2.4.2 New standards, amendments to standards and interpretation that have been issued but are not yet effective

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

New and revised IFRSs	**Description**	**Effective for annual years beginning on or after**
IFRS 17	Insurance Contracts	January 1, 2022
Amendments to IAS 1 and IAS 8	Definition of material	January 1, 2020
Amendments to IFRS 3	Definition of business	January 1, 2020
The Conceptual Framework for Financial Reporting	Amendments to references to References to Conceptual Framework in IFRS Standards and updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform	January 1, 2020
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Revenue recognition

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

3.1.1 Sale of goods

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

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

In assessing these steps, management considers the followings:

- Approval of both parties (buyer and seller) on the sale with each party rights in relation to these goods and services to be transferred under the sale. Payment terms are also considered to ensure the contract has a commercial substance and it is probable that the consideration under the sale of these goods and services will be collected.

- Identification of the distinct goods or service promised under the contract. These distinct goods and service, are referred to as performance obligation. In considering whether these goods and services are distinct, management assess whether these goods or services can provide benefit on its own and the Group’s promise to transfer these goods and services to the customer are separately identified. All the Group sales are considered to be distinct.

- The consideration to which the Group expects to be entitled in exchange for transfer of these goods and services. All the Group’s sale has fixed consideration.

- Allocation of the transaction price to goods or services under the contract.

- Satisfaction of performance obligation.

3.1.2 Revenue from additional service program

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

3.1.3 Installment sales

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Revenue recognition (Continued)

3.1.3 Installment sales (Continued)

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

A- the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services; and

B- the combined effect of both of the following:

(i) the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services; and
(ii) the prevailing interest rates in the relevant market.

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

3.1.4 Sales returns

It is the group's policy to sell its products to the end customer with a right of return within 7 days. Therefore, a refund liability and a right to the returned goods are recognized for historical experience of the group. Considering the amount of returns to be immaterial, hence no refund liability is recognized at the time of sale.

3.2 Expenses

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

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

Administrative expenses include indirect costs not specifically part of cost of revenue as required under generally accepted accounting principles. Allocations between distribution, marketing and administrative expenses and cost of revenue, when required, are made on a consistent basis.

3.3 Earnings per share

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

3.4 Foreign currency translations

3.4.1 Presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Foreign currency translations (Continued)

3.4.2 Transaction and balances

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

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

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

3.4.3 Group entities

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

(i) Assets and liabilities for each reporting period presented are translated at the closing exchange rates prevailing at the end of reporting period.

(ii) Income and expenses from each reporting period are translated at average exchange rates and;

(iii) Components of the equity accounts are translated at the exchange rates in effect of the dates of the related items originated. Cumulative adjustments resulting from the translations are reported in other comprehensive income and are reported in a separate component of equity as "Currency translation differences".

3.5 Borrowing cost

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

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

3.6 Employee benefits

3.6.1 End of services benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Employee benefits (Continued)

3.6.1 End of services benefits (Continued)

Defined benefit costs are categorized as follows:

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

The Group presents the first two components of defined benefit costs in the consolidated statement of profit or loss in the line item 'Administration expenses'.

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

3.6.2 Short-term and other long-term employee benefits

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

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

3.7 Zakat and income tax

3.7.1 Zakat

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

3.7.2 Current income tax

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

3.7.3 Deferred tax

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Zakat and income tax (Continued)

3.7.3 Deferred tax (Continued)

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

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

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

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

3.8 Segmental reporting

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

Segment results that are reported to the BOD and CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items compose mainly corporate expenses and related assets/liabilities (primarily the Company's headquarters). Head office expenses, research and development costs and related assets/liabilities, some goodwill and intangible assets and income tax assets and liabilities.

Because the management views the whole activates of the group as one operating segment, reporting is provided by geographical segment only.

3.9 Property and equipment

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Property and equipment (Continued)

The estimated useful lives of assets are as follows:

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

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

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

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

3.10 Right-of-use assets

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

3.11 Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Incremental rate is the rate that the individual lessee would pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is premeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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

<u>Short-term leases and leases of low-value assets</u>

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Intangible assets

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

3.13 De-recognition of intangible assets

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

3.14 Impairment of tangible and intangible assets

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

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

3.15 Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Provisions

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

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

3.17 Cash and cash equivalents

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

3.18 Financial Instruments

a) Classification of financial assets

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Financial Instruments (Continued)

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

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

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

De-recognition

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

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

c) Impairment

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

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

- **Stage 1 - Performing**

Includes installment sale receivables that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-months ECL are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

- **Stage 2 - Under performing**

Includes installment sale receivables that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these asset, lifetime ECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of installment receivables. Expected credit losses are the weighted average credit losses with the PD as the weight.

- **Stage 3 - Non-performing**

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Financial Instruments (Continued)

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

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

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

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

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

The Group has identified and documented key drivers of credit risk and credit losses and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2019 included the following key indicators.

- GDP growth
- Inflation rate

Write off

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Financial Instruments (Continued)

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

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:
- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

3.19 Investment in islamic financing contracts

3.19.1 Tawaruq contract receivables
Tawaruq is an agreement whereby the Group sells to a customer an asset, which the Group has purchased and subsequently to such sale, arranges to sell the underlying asset and pay out the sale proceeds to the customer. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Tawaruq sale contracts include the total sale payments on the Tawaruq agreement (Tawaruq sale contract receivable). The difference between the Tawaruq sale contracts receivable and the cost of the sold asset, is recorded as unearned Tawaruq profit and for presentation purposes, is deducted from the gross amounts due under the Tawaruq sale contracts receivable.

3.19.2 Murabaha contract receivables
Murabaha is an agreement whereby the Group sells to a customer an asset, which the Group has purchased based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Murabaha sale contracts include the total of future sale payments on the Murabaha agreement (Murabaha sale contract receivable). The difference between the Murabaha sale contracts receivable and the cost of the sold asset, is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the Murabaha sale contracts receivable.

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

3.21 Share-based scheme

Employees of the Group receive remuneration in the form of equity settled share based payments under the ESOP, whereby employees render services as consideration for the option to purchase fixed number of Group's shares ("Option") at a predetermined price.

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

The Group has set up an economic hedge by issuing Treasury Shares at inception of the ESOP. Accordingly, the Other Reserves (representing the cumulative expense arising from ESOP) is transferred into Retained Earnings upon expiry of the ESOP, whether or not the Options vest to the employees.

The cumulative expense recognised for ESOP at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of Options that will ultimately vest.

When the terms of the ESOP are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share based payment transaction, or is otherwise beneficial to the employee as measured at the date of the modification.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Share-based scheme (Continued)

When the ESOP is terminated, it is treated as if the Options vested on the date of termination, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new ESOP is substituted for the terminated ESOP, and designated as a replacement award on the date that it is granted, the terminated and new ESOPs are treated as if they were a modification of the original ESOP, as described in the previous paragraph.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

4.1 Impairment of inventories

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete or subject to technological changes, an estimate is made of their net realizable value. Factors considered in determination of markdowns include current and anticipated demand, customer preferences and age of inventories as well as seasonal trends. For individually significant amounts this estimation is performed on an individual basis. Items which are not individually significant, but which are old or obsolete, are assessed collectively and a markdown provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

4.2 Impairment of property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use. No impairment loss had been recognized as at December 31, 2019.

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

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

4.4 Employee end of service benefits

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

4.5 Impairment of financial assets

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

4.6 Leases

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

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

5. PROPERTY AND EQUIPMENT

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

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

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

5.

5. PROPERTY AND EQUIPMENT (Continued)

The movement of the property and equipment for the year ended December 31, 2018 is as follows:

	Land	Buildings and leasehold improvement	Furniture, fixtures and office equipment	Motor vehicles	Capital work in progress	Total
	SR	SR	SR	SR	SR	SR
Cost:						
Balance at January 1, 2018	101,547,669	352,890,852	230,925,914	25,927,567	18,374,515	729,666,517
Additions	9,341,391	9,151,075	18,231,718	372,888	22,890,966	59,988,038
Transfers of capital work in progress	-	8,203,816	4,298,915	653,920	(13,156,651)	-
Damaged assets	-	(3,426,200)	(4,445,972)	-	-	(7,872,172)
Disposals	-	(7,443,357)	(4,098,264)	(2,437,380)	-	(13,979,001)
Balance at December 31, 2018	110,889,060	359,376,186	244,912,311	24,516,995	28,108,830	767,803,382
Accumulated Depreciation:						
Balance at January 1, 2018	-	94,482,982	175,854,036	18,155,162	-	288,492,180
Depreciation charge for the year	-	14,893,153	18,144,757	1,979,235	-	35,017,145
Damaged assets	-	(1,058,708)	(3,505,178)	-	-	(4,563,886)
Disposals	-	(2,228,930)	(3,847,316)	(2,041,333)	-	(8,117,579)
Balance at December 31, 2018	-	106,088,497	186,646,299	18,093,064	-	310,827,860
Net Book Value:						
At December 31, 2018	110,889,060	253,287,689	58,266,012	6,423,931	28,108,830	456,975,522

5. PROPERTY AND EQUIPMENT (Continued)

Depreciation for the year has been allocated as under:

	December 31, 2019 **SR**	December 31, 2018 SR
Selling, marketing and distribution expenses (Note 22)	**39,274,951**	31,478,982
General and administrative expenses (Note 23)	**3,362,394**	3,538,163
	42,637,345	35,017,145

6. RIGHT OF USE

The Group has right of use for the stores and warehouses and presents the right of use separately from property and equipment.

Movement in right of use during the year is as follows:

	Store **SR**	**Land** **SR**	**Warehouse** **SR**	**Total** **SR**
Opening balance	**-**	**-**	**-**	**-**
Impact of adoption of IFRS 16 (Note 2.4.1)	**117,521,975**	**319,255,478**	**700,005**	**437,477,458**
Opening balance (Restated)	**117,521,975**	**319,255,478**	**700,005**	**437,477,458**
New contracts added during the year	**11,867,311**	**-**	**50,487,218**	**62,354,529**
Depreciation charge for the year	**(22,423,844)**	**(21,141,173)**	**(5,053,450)**	**(48,618,467)**
Adjustment	**1,662,914**	**(4,303,777)**	**(100,813)**	**(2,741,676)**
Closing balance	**108,628,356**	**293,810,528**	**46,032,960**	**448,471,844**

7. INTANGIBLE ASSETS

The movement of intangible assets is as follows:

	December 31, 2019 **SR**	December 31, 2018 SR
Cost	**113,171,301**	78,942,087
Accumulated amortization	**(57,118,004)**	(37,027,279)
Amortized value	**56,053,297**	41,914,808

	December 31, 2019 **SR**	December 31, 2018 SR
Cost		
Opening balance	78,942,087	70,582,065
Transferred on the acquisition of a subsidiary	**11,767,653**	-
Additions	**8,423,552**	8,360,022
Transferred from CWIP	**14,038,009**	-
Closing balance	**113,171,301**	78,942,087
Accumulated amortization		
Opening balance	(37,027,279)	(31,306,458)
Transferred on the acquisition of a subsidiary	**(11,653,057)**	-
Amortization	**(8,437,668)**	(5,720,821)
Closing balance	**(57,118,004)**	(37,027,279)
Net book value	**56,053,297**	41,914,808

7. INTANGIBLE ASSETS (Continued)

Amortization for the year has been allocated as under:

	December 31, 2019 SR	December 31, 2018 SR
Selling, marketing and distribution expenses (Note no. 22)	**2,741,563**	624,877
General and administrative expenses (Note no. 23)	**5,696,105**	5,095,944
	8,437,668	5,720,821

8. GOODWILL

The Group entered into an agreement on May 29, 2019, for the acquisition of Procco Financial Services W.L.L, for a total purchase price of SR 5 million. As a result of this business acquisition and control acquired through sale agreement, the Company consolidated newly acquired subsidiary with effect from May 29, 2019. A goodwill of SR 6.37 million was recognized on the acquisition that represented the excess consideration paid over liabilities acquired.

The goodwill arising on acquisitions is calculated as follows:

	December 31, 2019 SR
Consideration paid	**5,000,000**
Identifiable net liabilities acquired	**1,367,451**
Goodwill	**6,367,451**

The Group is in the process of performing a purchase price allocation within the measurement period of 12 months from the acquisition date as allowed by IFRS 3 – Business combinations.

Summary of net assets of the subsidiary transferred during 2019 (at historical cost) is calculated as follows:

	Total SR
ASSETS	
Non-current assets	
Property and equipment, net	**92,502**
Intangible assets	**114,596**
Total non-current assets	**207,098**
Current assets	
Cash and cash equivalents	**731,170**
Trade receivables and other assets	**903,769**
TOTAL ASSETS	**1,842,037**
LIABILITIES	
Non-current liabilities	
Employee benefits	**(1,175,255)**
Current liabilities	
Trade payables and other liabilities	**(2,034,233)**
Total liabilities	**(3,209,488)**
NET ASSETS TRANSFERRED	**(1,367,451)**

9. TRADE RECEIVABLES AND OTHER ASSETS

Trade receivables and other assets comprise of the following:

	December 31, 2019 SR	December 31, 2018 SR
Trade receivables	**89,299,660**	33,623,300
Less: impairment of trade receivables	**(2,507,355)**	(2,507,355)
Net trade receivables	**86,792,305**	31,115,945
Prepaid government and recruitment charges	**7,404,391**	6,587,388
Employee receivables	**7,152,336**	5,988,428
Prepaid rent	**6,323,200**	24,600,480
Claim Receivable and refundable deposits	**6,150,468**	23,203,905
Advances to suppliers	**5,165,608**	6,825,209
Prepaid insurance	**2,958,833**	2,774,171
Prepaid marketing and license fee	**1,155,940**	1,142,646
Other assets	**24,247,830**	12,945,095
Less: allowance for impairment	**(14,626)**	(14,626)
	147,336,285	115,168,641
Less: non-current portion		
Prepaid rent	**-**	(2,990,457)
Employees receivable	**(1,472,172)**	(1,152,038)
Total non-current portion	**(1,472,172)**	(4,142,495)
Total current portion, net	**145,864,113**	111,026,146

Other assets include prepaid LC charges, governmental charges, subscription charges, insurance claims and shop rentals receivables.

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

	December 31, 2019 SR	December 31, 2018 SR
Not past due	**71,668,124**	11,513,079
Past due 1-90 days	**16,309,490**	20,713,602
Past due 91-180 days	**28,464**	62,676
Above 180 days	**1,293,582**	1,333,943
Less : Allowance for impairment	**(2,507,355)**	(2,507,355)
	86,792,305	31,115,945

The average credit period on sales of goods is 30 days. No interest is charged on trade receivables. Before accepting any new customer, the Group has a credit facility policy set in place to assess the potential customer's credit quality and defines credit limits by customer. These procedures, are reviewed and updated on an ongoing basis. As of December 31, 2019, two of the group's major customers comprise 93.4% of the net trade receivables balance (December 2018: three of major customers comprise 77.5% of the net trade receivables balance). There are no other customers who represent more than 4% of the total balance of trade receivables (December 31, 2018: 7%).

Movement in the allowance for impairment of trade receivable is as follows:

	December 31, 2019 SR	December 31, 2018 SR
Opening balance	**2,507,355**	1,720,417
Allowance for the year	**-**	786,938
Closing balance	**2,507,355**	2,507,355

10. INVESTMENT IN INSTALLMENT SALE RECEIVABLES AND ISLAMIC FINANCING CONTRACTS

	Note	December 31, 2019 SR	December 31, 2018 SR
Installment sales receivable, net	**10.1**	**339,102,159**	349,477,222
Investment in Islamic financing contracts, net	**10.2**	**143,899,072**	-
		483,001,231	349,477,222
Less: non-current portion		**(218,417,961)**	(87,340,613)
Current portion		**264,583,270**	262,136,609

10.1 Installment sale receivables, net

Details of sales installment receivables are as follows:

	December 31, 2019 SR	December 31, 2018 SR
Installment sales receivable	**379,352,480**	380,356,377
Less: allowance for impairment	**(40,250,321)**	(30,879,155)
Net installment sales receivable	**339,102,159**	349,477,222
Less: non-current portion included in non-current assets	**(116,931,600)**	(87,340,613)
Installment sales receivable, net - current portion	**222,170,559**	262,136,609

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

As at December 31, 2019 and 2018, stage wise installment sales receivable balances and the respective ECL are as follows:

2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Installment sales receivables	**305,251,791**	**22,754,680**	**51,346,009**	**379,352,480**
Allowance for impairment	**(3,776,594)**	**(4,359,525)**	**(32,114,202)**	**(40,250,321)**
	301,475,197	**18,395,155**	**19,231,807**	**339,102,159**

2018	Stage 1	Stage 2	Stage 3	Total
Installment sales receivables	318,993,021	26,264,575	35,098,781	380,356,377
Allowance for impairment	(4,313,315)	(3,915,854)	(22,649,986)	(30,879,155)
	314,679,706	22,348,721	12,448,795	349,477,222

Movement in the allowance for impairment

	December 31, 2019 SR	December 31, 2018 SR
Opening balance	30,879,155	16,571,657
Impact of adoption of IFRS 9	**-**	479,953
Impairment for the year	**9,828,673**	13,906,799
Utilized allowance	**(457,507)**	(79,254)
Closing balance	**40,250,321**	30,879,155

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

10.2 Investment in islamic financing contracts, net

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

	December 31, 2019			
	Current portion SR	Non-current portion SR	Allowance for credit loss SR	Total SR
Tawaruq contracts receivables, net	18,698,043	91,351,938	(1,312,502)	108,737,479
Murabaha contracts receivables, net	24,975,146	11,518,198	(1,331,751)	35,161,593
	43,673,189	102,870,136	(2,644,253)	143,899,072

Tawaruq contracts receivables, net

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

Murabaha contracts receivables, net

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

Analysis of quality of investment in islamic financing is as follows:

	December 31, 2019 SR
Neither past due nor impaired	142,607,547
Past due but not impaired	2,613,890
Past due and impaired	1,995,743
	147,217,180

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

10.2 Investment in islamic financing contracts, net (Continued)

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

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

	December 31, 2019 SR
Performing	145,221,437
Non-performing - past due and impaired	1,995,743
	147,217,180

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

	December 31, 2019	
	GIIF SR	PV of GIIF SR
Not later than one year	78,621,042	44,032,268
Later than one year but not later than five years	151,932,048	103,184,912
	230,553,090	147,217,180

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

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

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

	December 31, 2019 SR
Charge for the period	2,644,253

11. INVENTORIES

	December 31, 2019 SR	December 31, 2018 SR
Trade inventories	**858,570,733**	775,961,750
Inventory in transit	**45,750,527**	8,656,423
Spare parts	**10,624,367**	8,076,771
	914,945,627	792,694,944
Allowance for impairment	**(1,575,751)**	(1,204,253)
	913,369,876	791,490,691

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

	December 31, 2019 SR	December 31, 2018 SR
Opening balance	**1,204,253**	2,208,754
Addition for the year, net	**8,293,656**	10,785,836
Utilized against inventories written off	**(7,922,158)**	(11,790,337)
Closing balance	**1,575,751**	1,204,253

12. CASH AND CASH EQUIVALENTS

	December 31, 2019 SR	December 31, 2018 SR
Cash at banks	**85,814,458**	197,887,675
Cash on hand	**17,157,531**	13,318,484
	102,971,989	211,206,159

12.1 Reconciliation of liabilities arising from financing activities

	December 31, 2018 SR	**Loans received / Interest accrued SR**	**Payments SR**	**December 31, 2019 SR**
Short term loans	460,000,000	**2,575,200,000**	**(2,635,200,000)**	**400,000,000**

13. SHARE CAPITAL

	December 31, 2019 SR	December 31, 2018 SR
Authorized and issued	**500,000,000**	500,000,000
No. of shares SR 10 each	**50,000,000**	50,000,000
Issued during the year (note 1 (a))	**-**	80,000,000
No. of shares (SR 10 each)	**-**	8,000,000
Treasury share (note 1 (b) & note 29)	**(20,000,000)**	(20,000,000)
No. of treasury shares of SR 10 each	**(2,000,000)**	(2,000,000)

13. SHARE CAPITAL (Continued)

	December 31, 2019 SR	December 31, 2018 SR
Reconciliation of number of shares outstanding		
Opening balance	**48,000,000**	42,000,000
Shared issued (note 1)	**-**	8,000,000
Treasury shares (note 29)	**-**	(2,000,000)
Closing balance	**48,000,000**	48,000,000

14. STATUTORY RESERVE

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

15. BANK FACILITIES

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

16. DEFERRED REVENUE FROM EXTENDED WARRANTY PROGRAM

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

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

	December 31, 2019 SR	December 31, 2018 SR
Deferred revenue - Current portion	**58,363,381**	52,396,359
Deferred revenue - Non-current portion	**76,924,519**	67,075,257
	135,287,900	119,471,616

Movement of extended warranty service is as follows:

	December 31, 2019 SR	December 31, 2018 SR
Balance as of January 1	**119,471,616**	111,028,294
Contracts issued during the year	**78,538,359**	63,873,865
Revenue recognition during the year	**(62,722,075)**	(55,430,543)
Balance as of December 31	**135,287,900**	119,471,616

17. LEASE LIABILITY

The Group has lease liabilities related to the stores, lands and warehouses. With the exception of short-term leases, each lease is presented as a lease liability on the balance sheet.

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

17. LEASE LIABILITY (Continued)

Each lease imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right of use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and Group's premises the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

	December 31, 2019				
	Store	**Land**	**Warehouse**	**Office Equipment**	**Total**
	SR	**SR**	**SR**	**SR**	**SR**
Opening balance - January 1, 2019	-	-	-	-	-
Impact of adoption of IFRS 16 (Note 2.4.1)	**144,548,758**	**378,484,771**	**722,944**	**546,395**	**524,302,868**
Opening balance (Restated)	**144,548,758**	**378,484,771**	**722,944**	**546,395**	**524,302,868**
Additions	**11,867,311**	**-**	**50,487,218**	**435,000**	**62,789,529**
Interest accrued during the year (note 26)	**9,100,742**	**30,338,382**	**2,546,671**	**-**	**41,985,795**
Lease liability settled during the year	**(36,165,862)**	**(34,160,501)**	**(4,179,188)**	**(167,180)**	**(74,672,731)**
Closing balance – December 31, 2019	**129,350,949**	**374,662,652**	**49,577,645**	**814,215**	**554,405,461**
Current portion of lease liabilities	**19,332,986**	**18,853,607**	**8,680,823**	**206,880**	**47,074,296**
Non-current portion of lease liabilities	**110,017,963**	**355,809,045**	**40,896,822**	**607,335**	**507,331,165**

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

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

The Group has short-term and low value lease arrangements and the expense for the year relating to short-term and law value lease arrangement was SR 3,896,548.

18. END OF SERVICE BENEFITS

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

	December 31, 2019	December 31, 2018
	SR	SR
Opening balance as at January 1	**55,815,961**	56,517,424
Transferred on acquisition	**1,175,255**	-
Expense charge for the year	**11,848,531**	10,797,533
Re-measurement loss (gain)	**1,035,130**	(1,195,710)
Payment	**(9,973,882)**	(10,303,286)
Closing balance	**59,900,995**	55,815,961

18. END OF SERVICE BENEFITS (Continued)

Charge to consolidated statement of profit or loss for the year:

	December 31, 2019 SR	December 31, 2018 SR
Current service cost	**9,420,096**	**8,747,627**
Interest cost	**2,428,435**	**2,049,906**
Cost recognized in profit and loss	**11,848,531**	**10,797,533**

	December 31, 2019 SR	December 31, 2018 SR
Principal actuarial assumptions		
Discount factor used	**4.77% - 6.32%**	4.23% - 6.00%
Salary increase rate		
Year 1	**3.00%**	3.00%
Year 2 & onwards	**3.00%**	3.00%
Rates of employee turnover	**HIGH**	HIGH

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

	December 31, 2019		December 31, 2018	
	Percentage	**SR**	Percentage	SR
Discount rate				
Increase	**0.50%**	**57,350,397**	0.50%	53,958,912
Decrease	**-0.50%**	**61,280,609**	-0.50%	61,798,383
Expected rate of salary				
Increase	**0.50%**	**61,307,019**	0.50%	57,812,993
Decrease	**-0.50%**	**57,308,945**	-0.50%	53,928,428

19. TRADE PAYABLES AND OTHER LIABILITIES

Trade payables and other liabilities comprise of the following:

	December 31, 2019 SR	December 31, 2018 SR
Trade payables	**616,366,009**	501,441,979
Accrual for employee costs	**38,780,305**	45,726,513
Gift cards	**37,042,302**	35,491,754
Advance from customers	**29,980,433**	20,483,288
Accrual for utilities and other charges	**18,544,080**	13,094,781
Non trade payables	**13,167,816**	2,511,164
Value added tax (VAT)	**6,159,742**	8,052,397
Others	**48,440,814**	28,776,348
	808,481,501	655,578,224

Other accrued liabilities include liabilities for supply chain and online delivery expenses.

20. ZAKAT

Starting from financial year 2018, the Group files its zakat return on consolidated basis except for its subsidiary United Company for Financial Services which file their zakat return on stand-alone basis.

20. ZAKAT (Continued)

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

Zakat charge for the year 2019 is calculated as below:

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

Zakat charge for the year 2018 is calculated as below:

	December 31, 2018 SR
Opening share capital	**420,000,000**
Reserves and opening provisions less utilized	**165,936,105**
Retained earnings	**35,788,221**
Income subjected for zakat	**195,702,539**
Closing value of long-term assets	**(498,890,330)**
Zakat base	**318,536,535**
Zakat due at 2.5%	**7,963,413**

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

Movement in provision for zakat is as follows:

	December 31, 2019 SR	December 31, 2018 SR
At January 1,	**7,900,373**	5,388,493
Provision for the year	**11,501,521**	7,963,413
Under provision	**533,175**	-
Assessment charge	**359,691**	-
Payments	**(8,818,015)**	(5,451,533)
As at December 31,	**11,476,745**	7,900,373

Zakat assessment
The Group received on January 8, 2018, the final assessment for years 2006 to 2010 from the General Authority of Zakat and Tax ("GAZT") that claimed an additional zakat and tax liability of SR 24 million. The Group has filed an objection to the above-mentioned assessment and obtained a revised assessment of SR 322,278 which was settled during 2018. Assessment for years 2011 to 2018 (except for the year 2017 as mentioned in below paragraph) still under review by the General Authority of Zakat and Tax ("GAZT"). The Group obtained the zakat certificate for the year ended December 31, 2018.

20. ZAKAT (Continued)

Zakat assessment (Continued)
During the year ended December 31, 2019, the Group received an assessment for the year 2017 from General Authority of Zakat and Tax ("GAZT") claiming zakat and tax of SR 26.2 million. The Group has filed the objection letter on the above mentioned assessment and obtained a revised assessment of SR 359,691 which was settled during the year 2019.

21. SEGMENTAL REPORTING

The management of the Group views the entire business activities of the Group as one operating segment for performance assessment and resources allocation. Because the management views the entire business activities of the Group as one segment, segment reporting is provided by geographical segments only.

There are no intra segment transactions except those eliminated under consolidation adjustments. The details of the results pertaining to Kingdom of Saudi Arabia and subsidiaries results outside the Kingdom with their respective assets and liabilities for the year ended December 31, 2019 and December 31, 2018 are as follows:

For year ended December 31, 2019

December 31, 2019	Inside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Consolidation adjustments	Total
Revenue, net	**4,831,351,914**	**307,731,790**	**(4,480,188)**	**5,134,603,516**
Cost of revenue	**(3,976,884,101)**	**(259,796,363)**	**3,259,981**	**(4,233,420,483)**
Gross profit	**854,467,813**	**47,935,427**	**(1,220,207)**	**901,183,033**
Net profit	**210,749,495**	**6,887,937**	**(12,023,140)**	**205,614,292**

Financial position as at December 31, 2019

December 31, 2019	Inside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Consolidation adjustments	Total
Non-current assets	**1,258,526,599**	**112,560,063**	**(162,874,191)**	**1,208,212,471**
Current assets	**1,440,464,342**	**90,595,304**	**(104,270,398)**	**1,426,789,248**
Total Assets	**2,698,990,941**	**203,155,367**	**(267,144,589)**	**2,635,001,719**
Non-current liabilities	**583,044,371**	**66,650,363**	**-**	**649,694,734**
Current liabilities	**1,300,977,240**	**128,689,081**	**(104,270,398)**	**1,325,395,923**
Total Liabilities	**1,884,021,611**	**195,339,444**	**(104,270,398)**	**1,975,090,657**

For the year ended December 31, 2018

December 31, 2018	Inside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Consolidation adjustments	Total
Revenue, net	4,113,481,810	281,354,024	(755,428)	4,394,080,406
Cost of revenue	(3,371,456,466)	(243,766,596)	755,428	(3,614,467,634)
Gross profit	742,025,344	37,587,428	-	779,612,772
Net profit	161,273,544	2,118,106	(2,199,621)	161,192,029

Revenue includes the income from financing services amounting to SR 152,011,127 (2018: SR 97,334,960).

21. SEGMENTAL REPORTING (Continued)

Financial position as at December 31, 2018

December 31, 2018	Inside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Consolidation adjustments	Total
Non-current assets	659,663,010	65,298,036	(134,587,608)	590,373,438
Current assets	1,390,710,151	54,220,328	(69,070,874)	1,375,859,605
Total Assets	2,050,373,161	119,518,364	(203,658,482)	1,966,233,043
Non-current liabilities	130,692,856	11,857,775	-	142,550,631
Current liabilities	1,123,816,997	123,352,886	(69,070,874)	1,178,099,009
Total Liabilities	1,254,509,853	135,210,661	(69,070,874)	1,320,649,640

22. SELLING, MARKETING AND DISTRIBUTION EXPENSES

	December 31, 2019 SR	December 31, 2018 SR
Salaries, wages and other employee benefits	**267,130,223**	230,365,343
Depreciation - Right of use	**48,503,751**	-
Depreciation - Property and equipment	**39,274,951**	31,478,982
Advertising and other related cost	**37,278,815**	33,128,124
Utilities, printing and stationary	**27,188,257**	26,602,816
Bank commission on credit/debit card sales	**17,747,659**	15,126,591
Delivery charges	**12,412,912**	11,916,999
Provision for impairment of sales installment receivables	**11,164,533**	13,906,799
Repair and maintenance	**10,696,011**	9,451,555
Security services and cash pick up charges	**9,447,374**	8,707,685
Cleaning services	**7,285,365**	6,475,802
Rent	**3,896,548**	78,228,643
Travel and accommodation	**2,410,898**	2,170,028
Amortization	**2,741,563**	624,877
Legal expenses	**1,658,380**	726,124
Others	**10,353,389**	11,581,693
	509,190,629	480,492,061

23. GENERAL AND ADMINISTRATION EXPENSES

	December 31, 2019 SR	December 31, 2018 SR
Salaries, wages and other employee benefits	**104,845,657**	88,628,009
Amortization	**5,696,105**	5,095,944
Legal and consultancy	**4,141,864**	2,106,303
Repair and maintenance	**5,447,049**	7,580,703
Utilities, printing and stationary	**5,060,641**	2,466,106
Depreciation - Property and equipment	**3,362,394**	3,538,163
Travel and accommodation and communication	**2,321,449**	2,001,922
Cleaning services	**532,988**	427,291
Depreciation - Right of use	**114,716**	-
Security and cash pickup	**95,716**	102,888
Rent	**-**	238,000
Others	**11,603,407**	6,936,817
	143,221,986	119,122,146

24. OTHER EXPENSES

	December 31, 2019 SR	December 31, 2018 SR
Exchange rate losses	**523,801**	105,890
Loss on Property and equipment disposals	**10,384**	480,813
Inventories written off	**-**	858,492
Property and equipment written off	**-**	165,399
Others	**2,660,758**	-
	3,194,943	1,610,594

25. OTHER INCOME

	December 31, 2019 SR	December 31, 2018 SR
Gain on factorization of installment sales receivables, net	**17,471,075**	-
Income from insurance claim	**4,406,061**	-
Refund from Government for Saudization	**3,347,216**	-
Service fee income	**1,093,070**	-
Income from time deposits	**809,363**	-
Others	**3,385,240**	1,811,685
	30,512,025	1,811,685

26. FINANCIAL CHARGES

	December 31, 2019 SR	December 31, 2018 SR
Finance charges – Interest on loan	**14,973,281**	10,165,821
Finance charges – Lease liability interest	**41,985,795**	-
Finance charges – Bank charges	**74,469**	4,401
	57,033,545	10,170,222

27. RELATED PARTIES' TRANSACTIONS AND BALANCES

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

During the year ended December 31 2019, the Group had the following significant transactions with its related parties.

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

27. RELATED PARTIES' TRANSACTIONS AND BALANCES (Continued)

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

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

	Transaction Amount		**Balance at**	
Nature of transaction	**December 31, 2019**	December 31, 2018	**December 31, 2019**	December 31, 2018
Sales to	**SR**	SR	**SR**	SR
Al Fozan Holding Company	**452,893**	272,932	**31,763**	100,700
Retal Urban Development Company	**91,770**	125,213	**50,285**	-
United Homeware Company	**543,678**	-	**247,551**	-
	1,088,341	398,145	**329,599**	100,700
Purchases / (returns)				
United Homeware Company	**16,142,837**	49,340,967	**1,769,102**	1,737,679
Madar Tools & Equipment Co.	**326,871**	1,017,221	**417,367**	904,137
Al Yassra Trading Co.	**43,974**	(349,929)	**30,713**	166,223
	16,513,682	50,008,259	**2,217,182**	2,808,039
Fixed assets purchases from				
Almajdoui motor Company	**336,310**	-	-	-
Madar Electrical Materials Co.	**174,036**	2,257,524	-	-
	510,346	2,257,524	**-**	-
Rental income from				
United Homeware Company	**6,304,080**	6,684,840	**2,549,617**	-
Rent expense from				
Madar Building Materials Co.	**550,000**	550,000	-	-
Abdullatif and Mohamed Al Fozan Co.	**1,471,000**	1,471,000	-	-
	2,021,000	2,021,000	-	-
Other expenses expense charge by / (to)				
Madar Building Materials Co.	**351,970**	332,652	-	-
United Homeware Company	**(455,836)**	(415,285)	-	-
	(103,866)	(82,633)	-	-
Management fee from				
United Homeware Company	**(1,191,258)**	(910,165)	-	-

Key management compensation:

	December 31, 2019	December 31, 2018
	SR	SR
Short term benefit	**25,849,425**	19,326,009
Amount payable under retention program	**1,246,335**	1,520,668
BOD and related committees remuneration	**3,062,157**	2,589,731

As of December 31, 2019, balance due to key management personnel amounts to SR 4,224,143.

28. EARNINGS PER SHARE

Basic Earnings per share for the year is as follows,

	December 31, 2019	December 31, 2018
	SR	SR
Basic earnings per share		
Profit for the year	**205,614,292**	161,192,029
Weighted average number of outstanding shares	**48,000,000**	48,000,000
	4.28	3.36

Diluted Earnings per share for the year is as follows,

	December 31, 2019	December 31, 2018
	SR	SR
Diluted earnings per share		
Profit for the year	**205,614,292**	161,192,029
Weighted average number of outstanding shares	**50,000,000**	50,000,000
	4.11	3.22

29. LONG-TERM INCENTIVE PROGRAM

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

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

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

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

The total expenses related to the program for the year ended December 31, 2019, amounting to SR 6 million (2018: SR 1.6 million) was charged to the employees’ benefit expenses with a corresponding increase in the statement of changes in equity in accordance with the requirements of the International Financial Reporting Standard No. (2) "share based payment".

The Employee Stock Option Program (ESOP) 2018 was granted on September 19, 2018. The number of shares shall not exceed 20 million shares.

No grant was made in 2019.

29. LONG-TERM INCENTIVE PROGRAM (Continued)

The following table sets out the number of the, and movements in, share options during the year:

	December 31, 2019	December 31, 2018
At the beginning of the year	1,926,000	-
Granted during the year	**-**	1,926,000
Options revoke for employees left during the year	**(39,000)**	-
At the end of the year	**1,887,000**	1,926,000

The fair value per Option is estimated at the grant date, i.e. September 19, 2018, using the Black Scholes Merton pricing model, taking into account the terms and conditions upon which the share options were granted.

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

	2018
Input to the Model:	
Dividend Yield (%)	5%
Avg. Expected Volatility (%)	31.9%
Avg. Risk Free Interest Rate (%)	3.23
Avg. Contractual Life of Share Options (Years)	9.3
Share Price (SAR) at Grant Date	48.05
Exercise Price (SAR) at Grant Date	48.05
Avg. Fair Value per Option	9.59
Avg. Remaining Contractual Life (Years)	8.0
Weighted Average Share Price (SAR) during the year	54.9

Weighted Average Share Price (SAR) during 2019 is 68.3.

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

The following table shows movement during the year:

Treasury shares

	December 31, 2019	December 31, 2018
	SR	SR
At the beginning of the year	**20,000,000**	-
Acquired during the year	**-**	20,000,000
	20,000,000	20,000,000

30. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

30. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Financial instruments by category

	December 31, 2019 SR	December 31, 2018 SR
Financial assets at amortized cost:		
Installment sale receivables	**339,102,159**	349,477,222
Investment in Islamic financing contracts	**143,899,072**	-
Trade receivables and other assets	**100,784,993**	64,783,408
Cash and cash equivalents	**102,971,989**	211,206,159
Total Financial assets	**686,758,213**	625,466,789
Financial liabilities at amortized cost:		
Trade payables and other liabilities	**716,906,718**	544,129,893
Murabaha Finance	**400,000,000**	460,000,000
Lease liability	**554,405,461**	-
Finance lease liability	**-**	546,395
Total financial liabilities	**1,671,312,179**	1,004,676,288

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

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

Market risk

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

Foreign currency risk management

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

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

Foreign currency risk management

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

	Currency	**December 31, 2019 SR**	December 31, 2018 SR
Cash and cash equivalent	USD	**502,552**	284,604
	EUR	**25,160**	634,548
Trade payables and other liabilities	USD	**80,909,887**	23,493,141
	AED	**344,395**	253,410
	EUR	**554,859**	-

30. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Interest rate

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has interest bearing loans at December 31, 2019 and 2018. Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Interest rate sensitivity analysis

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

		Increase/ Decrease in basis points of interest rates	Effect on income for the year
		SR	SR
December 31, 2019	**SAR**	**+50**	**1,883,255**
	SAR	**-50**	**(1,937,756)**
December 31, 2018	SAR	+50	1,043,348
	SAR	-50	(1,054,722)

Liquidity risk

The Group maintains sufficient cash. Management review cash flow forecasts on a regular basis to determine whether the Group has sufficient cash reserves to meet future working capital requirements and to take advantage of business opportunities. The average creditor payment period is 49 days (2018: 54 days).

Contractual maturity analysis for financial liabilities

The following table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows:

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

December 31, 2018	Interest rate	Within 1 year	1-5 years	Total
		SR	SR	SR
Trade payables and other liabilities	Interest free	544,129,893	-	544,129,893
Murabaha finance	3.56%-4.05%	460,000,000	-	460,000,000
Finance lease liability	Interest free	123,165	423,230	546,395

Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its short term cash investments, and trade and installment sales receivables. Short term cash investments are placed with banks and institutions with sound credit ratings.

30. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

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

Description	**December 31, 2019 SR**	December 31, 2018 SR
Installment sale receivables	**339,102,159**	349,477,222
Investment in Islamic financing contracts	**143,899,072**	-
Trade receivables and other assets	**100,784,993**	64,783,408
Cash at Bank	**85,814,458**	197,887,675

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

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

Capital management

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

Fair value of financial instruments

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

31. DIVIDENDS DISTRIBUTION

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

Further, the Board of Directors in their meeting held on July 08, 2019, resolved to distribute SR 50 million cash dividend of SR 1 per share to the shareholders of the Group for the first half of 2019. The dividends were settled during the period.

During the financial year 2018, the Board of Directors in their meeting held on February 21, 2018 resolved to distribute SR 52.5 million cash dividends of SR 0.75 per share to the shareholders of the Company for the second half of 2017. Also, in their meeting held on July 8, 2018, the Board of Directors resolved to distribute cash dividends of SR 0.75 per share to the shareholders of the Company for the first half of 2018 with a total amount of SR 31.50 million. Dividends were fully paid during the year ended December 31, 2018.

32. PURCHASE AND AGENCY AGREEMENTS

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

As on December 31, 2019, the Group has the provision with present value of SR 9,953,229 for expected defaults and early termination.

32. PURCHASE AND AGENCY AGREEMENTS (Continued)

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

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

33. CONTINGENCIES AND COMMITMENTS

	December 31, 2019 SR	December 31, 2018 SR
Letters of credit	**368,435,430**	498,522,081
Letters of guarantee	**55,032,448**	117,364,117
Commitments for the acquisition of property and equipment	**8,982,458**	30,706,597
Commitments for the acquisition of intangible assets	**1,756,691**	10,665,688

34. COMPARATIVE FIGURES

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

35. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 5, 2020 corresponding to Rajab 10, 1441H.