Zamil Industrial Investment Co. | الزامل للصناعة

ZAMIL INDUSTRIAL INVESTMENT COMPANY (ZAMIL INDUSTRIAL) AND ITS SUBSIDIARIES (A Listed Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 AND INDEPENDENT AUDITORS' REPORT

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Independent Auditor's Report to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Zamil Industrial Investment Company ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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 key audit matter below, our description of how our audit addressed the matter is provided in that context.

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

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Independent Auditor's Report to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) - continued

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables The Group has gross accounts receivable of SR 2,178 million as at 31 December 2021 including certain overdue balances amounting to SR 1,277 million against which the Group has recorded an allowance for expected credit losses amounting to SR 402 million. Assessment of allowance for expected credit losses is highly subjective due to the significant judgement, estimates and assumptions applied by the management in determining the expected losses. The management is required to determine an expected loss rate against its outstanding accounts receivables based on the Group's historical credit loss experience adjusted with forward-looking information. The assessment of the correlation between historical observed loss rates, forecast economic conditions and expected future cash flows is a significant estimate. Given the judgements particularly related to the calculation of expected credit losses, we considered this area as a key audit matter. Refer to note 22 for further details.	In order to assess the appropriateness of the management's judgment and estimates, following procedures were performed: ▪ We evaluated the Group's processes and controls relating to the monitoring of accounts receivable and review of credit risks of customers. ▪ We evaluated the appropriateness of significant judgements and assumptions used in the estimates made by the management. ▪ We analysed the accounting policies and assessed the methodology developed to calculate the expected loss rate. ▪ We checked the mathematical accuracy of the model and recalculated expected losses on a sample basis. ▪ We analysed the results of expected credit loss model performed by the Group. Tested the accounts receivable aging and other source data used in assessment on a sample basis. ▪ Assessed the adequacy of the Group's disclosure regarding expected credit losses of accounts receivable and the management's assessment of the credit risk and their responses to such risks.

Independent Auditor's Report to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) - continued

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of long-term contracts One of the Group's significant revenue stream is long-term contracts. The Group recognises revenue from long-term contracts using percentage of completion method. The determination of the percentage of completion requires significant management judgement and estimates such as assessment of costs incurred over total cost of the project and the process for identification of loss making contracts. The revenues and costs related to a project include estimates, as the project scope may change and the total costs of a project depend on various factors including estimation of material and labour costs. Accounting policies for revenue recognition related to long-term contracts are given in note 2 to the consolidated financial statements. The recoverability of contract assets related to long-term contracts is therefore based on management's evaluation and best estimate of the ultimate realisation of these balances. Considering the above, revenue recognition from construction contracts has been determined as a key audit matter.	Our audit procedures in relation to revenue recognition of long term contracts included: ▪ Reviewed the Group's estimation process (including the approval of project budget, monitoring of project costs and activities, and management's review and customer's approval of project's stage of completion and milestones achieved) used in determining the amounts of revenue and costs recognised in the consolidated financial statements. ▪ On a sample basis, reviewed the contractual terms and work status of the customer contracts, along with discussions with management and checked that contract revenue was recognised according to the percentage of completion of each project measured by the stage of completion of physical activities. ▪ Performed analytical procedures to compare revenue and gross margin with those reported in prior periods for identifying significant fluctuations and obtaining explanations from management about such fluctuations. ▪ Reviewed estimation of contract costs, on a sample basis, arising from contract modifications and analysed current on-going negotiations and settlements that may impair the profitability of such contracts as well as the collectability of significant contracts by reference to the recent credit review assessment of each customer prepared by management. ▪ Assessed the recoverability of contract assets by considering if work is physically certified and progress billings have been raised since the year-end. ▪ Assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving revenue recognition and work executed in excess of billings.

Independent Auditor's Report to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) - continued

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Uncertain Zakat Provision: During the prior year, the Zakat, Tax and Customs Authority ("ZATCA") issued the zakat assessments for the years from 2014 to 2018 with an additional liability of SR 229.3 million. The Group had filed an appeal against the assessments. The Group's management is of view that they will win this appeal and based on that they did not account for the additional zakat liability. The accounting for this uncertain zakat provisions comprises significant judgement by the management mainly in the areas whether to recognise this uncertain position as a contingent liability or as a provision. Given the high level of management's judgement we considered this area to be important for our audit.	We performed the following procedures in relation to the additional assessed zakat liability: ▪ Evaluated this zakat case by evaluating the reports issued by the ZATCA. ▪ Gained the understanding of the process management followed to assess the impact of the assessment. ▪ Evaluated the zakat opinion of management's expert obtained by the Group on the respective case. ▪ Evaluated the reasonableness of management's assessment for the accounting of the uncertain zakat provision in the light of zakat regulations, recent practices of ZATCA and merits of the appeals filed with the ZATCA against the assessments raised. ▪ Evaluated the updates on this case during the year by reviewing the correspondence between the Group and ZATCA. ▪ Assessed the appropriateness of the disclosure made in relation to the contingent liability in respect of the additional liability for the zakat assessed and the status of the related appeal.

Independent Auditor's Report to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) - continued

Other information included in The Group's 2021 Annual Report

Other information consists of the information included in the Group's 2021 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The Group's 2021 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 conclusion thereon.

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

When we read the Group's 2021 annual report, if 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 International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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Independent Auditor's Report to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) – continued

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

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

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

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

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

for Ernst & Young Professional Services

Waleed G. Tawfiq
Certified Public Accountant
Registration No. (437)

Al Khobar: 21 Sha'ban 1443H
24 March 2022

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شركة ارنست ويونغ للخدمات المهنية
(مهنية ذات مسؤولية محدودة)
Ernst & Young Professional Services
(Professional LLC)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2021

	Notes	***2021*** ***SR'000***	*2020* *SR'000*
CONTINUING OPERATIONS			
REVENUES			
Revenue from contracts with customers	6	**3,510,837**	3,368,962
Finance lease income		**12,980**	14,000
		3,523,817	3,382,962
DIRECT COSTS			
Cost of sales	7	**(2,489,536)**	(2,141,988)
Contracts cost	8	**(558,537)**	(794,613)
		(3,048,073)	(2,936,601)
GROSS PROFIT		**475,744**	446,361
EXPENSES			
Selling and distribution	9	**(169,674)**	(153,968)
General and administration	10	**(416,489)**	(353,771)
OPERATING LOSS		**(110,419)**	(61,378)
Share in results of associates and a joint venture	17	**2,382**	24,836
Other income, net	11	**26,292**	38,420
Finance costs	12	**(51,959)**	(75,459)
Impairment loss on goodwill	20	**-**	(21,126)
LOSS BEFORE ZAKAT AND INCOME TAX FROM CONTINUING OPERATIONS		**(133,704)**	(94,707)
Zakat and income tax	34	**(17,269)**	(13,045)
Deferred tax	34	**1,382**	(1,975)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(149,591)**	(109,727)
DISCONTINUED OPERATIONS			
Loss after zakat and income tax for the period from discontinued operations	13	**(3,274)**	(40,111)
NET LOSS FOR THE YEAR		**(152,865)**	(149,838)
NET (LOSS) INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the parent company		**(159,417)**	(159,873)
Non-controlling interests		**6,552**	10,035
		(152,865)	(149,838)
EARNINGS PER SHARE FROM NET LOSS:			
Basic and diluted earnings per share attributable to the shareholders of the parent company	14	**(2.66)**	(2.66)
EARNINGS PER SHARE FOR CONTINUING OPERATIONS:			
Basic and diluted earnings per share attributable to the shareholders of the parent company	14	**(2.60)**	(2.00)

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	***2021*** ***SR'000***	*2020* *SR'000*
NET LOSS FOR THE YEAR		**(152,865)**	(149,838)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Foreign currency differences on translation of foreign operations		**(1,585)**	(1,654)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(1,585)**	(1,654)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Net gains on equity instruments at fair value	18	**9,111**	14,510
Actuarial (loss) gain on employees' defined benefit liabilities	29	**(15,281)**	1,825
Share in other comprehensive income of an associate	17	**(856)**	30
Net other comprehensive (loss) income that will not be reclassified to profit or loss in subsequent periods		**(7,026)**	16,365
Other comprehensive (loss) income for the year		**(8,611)**	14,711
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(161,476)**	(135,127)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the parent company		**(166,745)**	(145,298)
Non-controlling interests		**5,269**	10,171
		(161,476)	(135,127)

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

	Notes	*2021* *SR'000*	*2020* *SR'000*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15	**804,853**	868,553
Right-of-use assets	16	**71,336**	96,189
Investments in associates and a joint venture	17	**91,264**	94,738
Equity instruments at fair value through other comprehensive income	18	**52,359**	53,650
Net investments in finance lease	19	**266,844**	292,507
Deferred tax assets	34	**5,163**	2,710
TOTAL NON-CURRENT ASSETS		**1,291,819**	1,408,347
CURRENT ASSETS			
Inventories	21	**1,435,348**	1,167,785
Accounts receivable	22	**1,775,474**	1,718,629
Contract assets	23	**659,141**	616,215
Advances, other receivables and prepayments	24	**237,737**	183,754
Current portion of net investment in finance lease	19	**25,662**	24,598
Cash and cash equivalents	25	**280,461**	156,092
		4,413,823	3,867,073
Asset held for sale	13	**18,437**	-
TOTAL CURRENT ASSETS		**4,432,260**	3,867,073
TOTAL ASSETS		**5,724,079**	5,275,420
EQUITY AND LIABILITIES			
EQUITY			
Share capital	26	**600,000**	600,000
Statutory reserve		**180,000**	180,000
Retained earnings		**200,777**	375,048
Foreign currency translation reserve		**(30,228)**	(28,643)
Fair value reserve		**16,175**	7,064
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		**966,724**	1,133,469
NON-CONTROLLING INTERESTS	27	**182,900**	201,439
TOTAL EQUITY		**1,149,624**	1,334,908
NON-CURRENT LIABILITIES			
Term loans	28	**7,040**	14,510
Employees' defined benefit liabilities	29	**229,134**	213,236
Lease liabilities	16	**54,612**	59,688
Deferred tax liabilities	34	**7,152**	6,077
TOTAL NON-CURRENT LIABILITIES		**297,938**	293,511
CURRENT LIABILITIES			
Accounts payable	30	**624,541**	456,591
Accruals and provisions	31	**476,051**	386,138
Short term loans	32	**2,435,369**	2,161,550
Current portion of term loans	28	**40,208**	165,803
Current portion of lease liabilities	16	**16,763**	31,550
Contract liabilities	33	**636,256**	402,771
Zakat and income tax provision	34	**47,329**	42,598
TOTAL CURRENT LIABILITIES		**4,276,517**	3,647,001
TOTAL LIABILITIES		**4,574,455**	3,940,512
TOTAL EQUITY AND LIABILITIES		**5,724,079**	5,275,420

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributed to shareholders of the parent company							
	Share capital	*Statutory reserve*	*Retained earnings*	*Foreign currency translation reserve*	*Fair value reserve*	*Total*	*Non-controlling interests*	*Total equity*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Balance at 1 January 2020	600,000	180,000	533,202	(26,989)	(7,446)	1,278,767	201,068	1,479,835
Net (loss) profit for the year	-	-	(159,873)	-	-	(159,873)	10,035	(149,838)
Other comprehensive income (loss)	-	-	1,719	(1,654)	14,510	14,575	136	14,711
Total comprehensive (loss) income	-	-	(158,154)	(1,654)	14,510	(145,298)	10,171	(135,127)
Movement in non-controlling interests	-	-	-	-	-	-	(9,800)	(9,800)
Balance at 31 December 2020	600,000	180,000	375,048	(28,643)	7,064	1,133,469	201,439	1,334,908
Net (loss) profit for the year	-	-	(159,417)	-	-	(159,417)	6,552	(152,865)
Other comprehensive (loss) income	-	-	(14,854)	(1,585)	9,111	(7,328)	(1,283)	(8,611)
Total comprehensive (loss) income	-	-	(174,271)	(1,585)	9,111	(166,745)	5,269	(161,476)
Movement in non-controlling interests	-	-	-	-	-	-	(23,808)	(23,808)
Balance at 31 December 2021	**600,000**	**180,000**	**200,777**	**(30,228)**	**16,175**	**966,724**	**182,900**	**1,149,624**

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	2021	*2020*
	SR'000	*SR'000*
OPERATING ACTIVITIES		
Loss before zakat and income tax from continuing operations	**(133,704)**	(94,707)
Loss before zakat and income tax from discontinued operations	**(3,274)**	(39,031)
Loss before zakat and income tax	**(136,978)**	(133,738)
Adjustments to reconcile loss before zakat and income tax to net cash flows:		
Depreciation of property, plant and equipment	**94,481**	107,248
Depreciation of right-of-use assets	**21,154**	21,916
Provision for employees' defined benefit liabilities	**26,487**	29,074
Impairment loss on non-current assets	**-**	43,182
Finance costs	**54,100**	79,636
Dividend income	**(446)**	(891)
Loss (gain) on disposal of property, plant and equipment	**1,570**	(10,445)
Share in results of associates and a joint venture	**(2,382)**	(24,836)
(Gain) loss on derecognition of leases	**(7,977)**	100
	50,009	111,246
Working capital adjustments:		
Inventories	**(267,563)**	71,606
Accounts receivable	**(56,845)**	177,033
Contract assets	**(42,926)**	(51,446)
Advances, other receivables and prepayments	**(53,983)**	(4,168)
Net investment in finance lease	**24,599**	23,577
Accounts payable	**167,950**	64,372
Accruals and provisions	**89,913**	(26,915)
Contract liabilities	**233,485**	108,743
Cash from operations	**144,639**	474,048
Financial charges paid	**(44,743)**	(63,156)
Zakat and income tax paid	**(12,539)**	(16,298)
Employees' defined benefit liabilities paid	**(30,579)**	(55,593)
Net cash from operating activities	**56,778**	339,001
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(53,329)**	(40,212)
Proceeds from disposal of property, plant and equipment	**1,858**	12,778
Proceeds from reduction in share capital of equity investment	**10,402**	-
Dividends received	**5,446**	10,891
Net cash used in investing activities	**(35,623)**	(16,543)
FINANCING ACTIVITIES		
Net movement in short term loans	**273,819**	(322,170)
Net movement in term loans	**(133,577)**	(14,272)
Payments against lease liabilities	**(12,323)**	(16,442)
Movement in non-controlling interests	**(23,808)**	(9,800)
Net cash from (used in) financing activities	**104,111**	(362,684)
INCREASE IN CASH AND CASH EQUIVALENTS	**125,266**	(40,226)
Cash and cash equivalents at the beginning of the year	**156,092**	197,252
Movement in foreign currency translation reserve, net	**(897)**	(934)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**280,461**	156,092

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December 2021

	2021	2020
	SR'000	*SR'000*
NON-CASH TRANSACTIONS:		
Share in other comprehensive income of an associate	**856**	(30)
Exchange differences on property, plant and equipment	**683**	730
Additions on right-of-use assets and lease liabilities	**188**	-
Exchange differences on deferred tax assets	**4**	28
Exchange differences on zakat and income tax provision	**1**	(38)
Remeasurement (loss) gain on employees' defined benefit liabilities	**(15,281)**	1,825

The attached notes 1 to 42 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Zamil Industrial Investment Company ("the Company") was converted to a Saudi Joint Stock Company in accordance with the Ministerial Resolution number 407 dated 14 Rabi' I 1419 H (corresponding to 9 July 1998). Prior to that the Company was operating as a limited liability company under the name of Zamil Steel Buildings Company Limited.

The Company is registered in the Kingdom of Saudi Arabia under Commercial Registration number 2050004215 dated 19 Ramadan 1396H (corresponding to 14 September 1976) with the following branch in the Kingdom of Saudi Arabia:

Commercial registration number	*Date*	*Location*
2050099363	8 Jumada' II 1435H	Dammam

The Company has investment in the following subsidiaries:

	Effective ownership percentage	
	2021	*2020*
Zamil Steel Holding Company Limited - Saudi Arabia	**100%**	100%
- Zamil Steel Pre-Engineered Buildings Company Limited - Saudi Arabia	**100%**	100%
- Zamil Structural Steel Company Limited - Saudi Arabia	**100%**	100%
- Zamil Towers & Galvanizing Company - Saudi Arabia	**100%**	100%
- Zamil Process Equipment Company Limited - Saudi Arabia	**100%**	100%
- Building Component Solutions Company Limited - Saudi Arabia	**100%**	100%
- Zamil Steel Construction Company Limited - Saudi Arabia	**100%**	100%
- Zamil Inspection & Maintenance of Industrial Projects Company Limited - Saudi Arabia	**100%**	100%
- Metallic Construction and Contracting Company Limited - Egypt	**100%**	100%
Zamil Air Conditioners Holding Company Limited - Saudi Arabia	**100%**	100%
- Zamil Air Conditioners & Home Appliances Company Limited - Saudi Arabia	**100%**	100%
- Zamil Central Air Conditioners Company Limited - Saudi Arabia	**100%**	100%
- Zamil Air Conditioning & Refrigeration Services Company Limited - Saudi Arabia	**100%**	100%
- Ikhtebar Company Limited - Saudi Arabia	**100%**	100%
- Eastern District Cooling Company Limited - Saudi Arabia	**100%**	100%
- Zamil Energy Services Company Limited - Saudi Arabia	**100%**	100%
- Zamil Air Conditioning and Refrigeration Services Company W.L.L - Bahrain	**100%**	100%
Arabian Stonewool Insulation Company - Saudi Arabia	**100%**	100%
- Second Insulation Company Limited - Saudi Arabia	**100%**	100%
- Saudi Preinsulated Pipes Industries - Saudi Arabia	**51%**	51%
Gulf Insulation Group - Saudi Arabia	**51%**	51%
Zamil Steel Building Company - Egypt	**100%**	100%
Zamil Steel Buildings (Shanghai) Company Limited - China	**100%**	100%
Zamil Steel Buildings India Private Limited - India	**100%**	100%
Zamil Steel Engineering India Private Limited - India	**100%**	100%
Zamil Industrial Investment Company - UAE	**100%**	100%
Zamil Steel Industries Abu Dhabi (LLC) - UAE	**100%**	100%
Zamil Structural Steel Company - Egypt	**100%**	100%
Zamil Construction India Private Limited - India	**100%**	100%
Zamil Information Technology Global Private Limited - India	**100%**	100%
Zamil Higher Institute for Industrial Training - Saudi Arabia	**100%**	100%
Zamil Air Conditioners India Private Limited - India	**100%**	100%
Saudi Central Energy Company Limited - Saudi Arabia	**100%**	100%
Zamil Industrial Investment Company Asia Pte. Limited - Singapore	**100%**	100%
Zamil Steel Buildings Vietnam Company Limited - Vietnam	**92.27%**	92.27%

1 CORPORATE INFORMATION (continued)

The Company and its subsidiaries listed above (collectively referred to as the "Group") are engaged in design and engineering, manufacturing and fabrication of construction materials, pre-engineering steel buildings, steel structures, air conditions and climate control systems for commercial, industrial and residential applications, telecom and broadcasting towers, process equipment, fiberglass, rockwool and engineering plastic foam insulation, and solar power projects.

The consolidated financial statements of the Group as of 31 December 2021 were authorised for issuance in accordance with the Board of Directors' resolution on 24 March 2022 (corresponding to 21 Sha'ban 1443H).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of measurement

These consolidated financial statements are prepared using historical cost convention except for the remeasurement of equity instruments at fair value through other comprehensive income, using the accrual basis of accounting.

These consolidated financial statements are presented in Saudi Riyals ("SR") which is also the functional currency of the Group. All values are rounded to the nearest thousands ("SR '000"), except when otherwise indicated.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in consolidated statement of income. Any investment retained is recognised at fair value.

Non-controlling interest represents the portion of profit or loss and net assets that are not held by the Group and are presented separately in the consolidated statement of financial position and within shareholders' equity in the consolidated statement of financial position, separately from the equity attributable to the shareholders of the Group.

Property, plant and equipment/depreciation
Construction in progress, property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in consolidated statement of income as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

- Buildings on leasehold land	20 to 40 years
- Machinery	5 to 20 years
- Furniture, fixtures and equipment	3 to 5 years
- Motor vehicles	3 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

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

Right-of-use assets
The Group recognises 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 remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives.

- *Plots of land*	5 to 30 years
- *Buildings*	3 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Lease liabilities

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

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (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 to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within control.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investments in associates and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group’s investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group’s share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and a joint venture (continued)

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and noncontrolling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of an associate and a joint venture' in the consolidated statement of income. Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

Net investment in finance lease

Where the Group determines a long term cooling water arrangement to be or to contain a lease and where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item, the arrangement is considered as a finance lease. A finance lease is presented as net investment in finance lease and is recognised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments received are apportioned between finance income and the reduction of the net investment in finance lease so as to achieve a constant rate of commission on the remaining balance of the asset.

Financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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

Financial assets at amortised cost (debt instruments)
This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order 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 interest on the principal amount outstanding.

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade and certain other receivables.

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

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

The Group elected to classify irrevocably its non-listed equity investments under this category.

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

- The rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for its financial assets. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised 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 recognised in the consolidated statement of income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). 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 recognised 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 recognised in consolidated statement of 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, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation 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 recognised in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill at each reporting date.

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 recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Inventories
Inventories are stated at the lower of cost and net realizable value. Costs are those expenses incurred in bringing each product to its present location and condition and is calculated on the following basis:

Raw materials	- purchase cost on a weighted average basis.
Work in progress and finished goods	- cost of direct materials and labour plus attributable overheads based on a normal level of activity.
Goods in transits	- cost of direct materials which are under shipment and for which risks and rewards have been passed to the Group and are stated at cost.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Withholding tax
The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, as required under Saudi Arabian Income Tax Law.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, bank balances and time deposits with original maturity of three-months or less from the acquisition date which are subject to an insignificant risk of changes in value.

Statutory reserve
As required by Saudi Arabian Regulations for Companies, the Company must transfer 10% of its income to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group’s financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

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

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of income. This category generally applies to interest-bearing loans and borrowings.

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

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

Employees' defined benefit liabilities
The Group operates a non-funded employee end-of-service benefit plan, which is classified as defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at that date. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms to maturity approximating to the estimated term of the post employment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognized in equity through other comprehensive income in the period in which they arise.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable, they are recorded in the consolidated statement of financial position under accounts payable and accruals. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Zakat and income tax

Zakat and income tax

Zakat is provided for the Company and for subsidiaries operate inside the Kingdom of Saudi Arabia in accordance with Regulations of the Zakat, Tax and Customs Authority (the "ZATCA") prevailing in the Kingdom of Saudi Arabia. Income tax is provided for in accordance with fiscal regulations in which the Company's subsidiaries operate. Provision for zakat and income tax is charged to the consolidated statement of income.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

Value-Added Tax ("VAT")

Revenues, expenses and assets are recognised net of the amount of VAT, except for:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable ; and
- in case of receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from or payable to the tax authority is classified as an asset or a liability, respectively, in the statement of consolidated financial position.

Revenue recognition

Revenue from contracts with customers

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

a) Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 90 days upon delivery. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

In general the contracts for the sale of goods do not provide customers with a right of return and volume rebates. Accordingly, the application of the constraint on variable consideration did not have any impact on the revenue recognised by the Group.

The Group provides normal warranty provisions for general repairs for one to five years on its certain products, in line with industry practice. A liability for potential warranty claims is recognised at the time the product is sold. The Group does not provide any extended warranties or maintenance contracts to its customers.

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

b) Rendering of services

The Group provides installation, maintenance and engineering services that are either sold separately or bundled together with the sale of equipment to a customer. These services can be obtained from other providers and do not significantly customise or modify the equipment.

Contracts for bundled sales of equipment and related services are comprised of two performance obligations because the promises to transfer equipment and provide maintenance or installation services are capable of being distinct and separately identifiable. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the equipment and maintenance or installation services.

The Group recognises revenue from above services at a point in time, generally upon completion of the service or delivery of the equipment.

c) Revenue from long-term contracts

The Group has determined that for its long-term contracts for turnkey projects in its steel and air conditioner segments and for made-to-order equipment in its steel segment, the customer controls all of the work in progress as the project progresses and equipment is manufactured. This is because under those contracts the works are performed and equipment are made to a customer's specification and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin.

At the time of entering into a contract, the Group identifies the performance obligations attached to each contract. For this purpose, the Group evaluates the contractual terms and its customary business practices to identify whether there are distinct performance obligations within each contract. The Group determines the transaction price of each contract in order to identify the transaction price of each aforementioned performance obligations as the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to a customer. Having determined the transaction price of the contract, the Group allocates the transaction price to each performance obligation.

The Group recognises revenue upon the satisfaction of performance obligations attached to contracts, which occurs when service obligations mentioned in the contract are met and accepted by the customer in form of acceptance of works completed. The Group recognises revenue from such long-term contracts over time, using an input method to measure progress towards complete satisfaction of the performance obligation by reference to the percentage of completion method. In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue multiplied by the actual completion rate based on the proportion of total contract costs incurred to date and the estimated cost to complete.

The Group receives advances from customers for its long-term projects. Generally, such advances are not significant to the contract consideration and received in the normal course of business at the start of the project. The Group does not adjust the promised amount of consideration for the effects of a significant financing component as the Group has determined that such advances are received for reasons other than financing the projects. These advances are adjusted against progress billings raised to the customer in accordance with the terms of the contract.

The value of work completed but not billed at the date of consolidated statement of financial position is classified as "contract assets" under current assets in the consolidated statement of financial position. Amounts billed in excess of work completed and advances received at the consolidated statement of financial position date is classified as "contract liabilities" under current liabilities in the consolidated statement of financial position. Invoices are issued according to contractual terms and are usually payable within 30 to 90 days.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Cost to obtain a contract
The Group pays sales commission to its employees and sales agents for certain contracts for sales of goods and services. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions because the amortisation period of the asset that the Group otherwise would have used is one year or less.

Finance income
Finance income, including income arising from finance leases and other financial instruments, is recognised using the effective interest method.

Contract balances
Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Accounts receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Expenses
Expenses are recognised when incurred based on the accrual basis of accounting. Selling and distribution expenses are those that specifically relate to salesmen, sales department, warranties, warehousing and delivery vehicles. All other expenses related to main operations are allocated on a consistent basis to direct costs and general and administration expenses in accordance with allocation factors determined as appropriate by the Group. Finance costs are presented separately in consolidated statement of income.

Foreign currencies
The Group's consolidated financial statements are presented in Saudi Riyal, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidated statement of income reflects the amount that arises from using this method.

Transaction and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the consolidated statement of income with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognised in OCI until the disposal of the net investment, at which time they are reclassified to consolidated statement of income.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or consolidated statement of income, respectively).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyal at the rate of exchange prevailing at the reporting date and their statements of income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to consolidated statement of income.

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Group measures financial instruments such as available for sale investments at fair value at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows and other relevant factors. Cost is considered to be the fair value where there is no reliable fair value information available for such investments.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of income.

3 CHANGES TO THE GROUP’S ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for following standards and interpretations applied for the first time which are effective from 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

3 CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

New and amended standards and interpretations

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. This amendment had no impact on the consolidated financial statements of the Group.

4 SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

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

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

Capital management	Note 39
Financial risk management objectives and policies	Note 38
Sensitivity analyses disclosures	Note 38

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 and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognized in the consolidated financial statements) includes:

Impairment of non-financial assets

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

4 SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS (continued)

Valuation of defined benefit obligations

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and other assumptions. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Impairment of accounts receivables, contract assets and net investment in finance lease

The Group uses a provision matrix to calculate expected credit losses (ECLs) for accounts receivables, contract assets and net investment in finance lease. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed loss rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in a particular sector, the historical loss rates are adjusted. At every reporting date, the historical observed loss rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed loss rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual loss in the future.

Zakat and income tax

At each reporting date, the Group is required to estimate zakat base and the income tax provision which is based on the Group's understanding of zakat and income tax regulations prevailing in the Kingdom of Saudi Arabia. The zakat and income tax regulations in Saudi Arabia are subject to different interpretations and the assessments to be raised by the ZATCA could be different from the declarations filed by the Company.

Estimated cost to complete

At each reporting date, the Group is required to estimate costs to complete on fixed-price contracts. Estimating costs to complete on such contracts requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. This estimate will impact contract revenues, contract costs and contract assets. Project costs to complete estimate is based on the managements best estimates at the reporting date after considering all the available and known factors.

Leases - Estimating the incremental borrowing rate

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

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

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

4 SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS (continued)

Fair value measurement of financial instruments
When the fair values of financial assets recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Useful lives of property, plant and equipment
The management determines the estimated useful lives of its equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Provisions
By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Provisions for uncertain liabilities including warranty provisions involve management’s best estimate of whether cash outflows are probable.

5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

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

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (continued)

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

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

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

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

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Group is currently

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

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

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	2021	*2020*
	SR '000	*SR '000*
Sale of goods	**2,587,236**	2,250,526
Revenue from long-term contracts	**666,702**	859,829
Rendering of services	**256,899**	258,607
Total revenue from contracts with customers	**3,510,837**	3,368,962

Reconciliation of the Group's disaggregate revenue for its reportable segments and timing of revenue recognition is disclosed in note 37.

Contract balances

Group's contract balances comprise of the followings:

	2021	*2020*
	SR '000	*SR '000*
Accounts receivable (note 22)	**1,775,474**	1,718,629
Contract assets (note 23)	**659,141**	616,215
Contract liabilities (note 33)	**636,256**	402,771

Accounts receivable are non-interest bearing and are generally on terms of 30 to 180 days.

Contract assets are initially recognised for revenue earned from its long-term contracts in its steel and air conditioner segment as receipt of consideration that is conditional on successful completion of obligations mentioned in the contract and accepted by the customer in form of acceptance of works completed. Upon completion of contract obligation and acceptance by the customer, the amounts recognised as contract assets are reclassified to accounts receivable.

Contract liabilities include advances received from customer and billings in excess of value of work executed against its long-term contracts.

7 COST OF SALES

	2021	*2020*
	SR'000	*SR'000*
Cost of inventories recognised as expense	**1,578,082**	1,308,093
Employees' and labour costs	**418,203**	454,345
Sub-contracting costs	**135,103**	77,374
Depreciation (note 15)	**64,900**	69,516
Depreciation of right-of-use assets (note 16)	**9,074**	9,593
Others direct costs	**284,174**	223,067
	2,489,536	2,141,988

8 CONTRACTS COST

	2021	*2020*
	SR'000	*SR'000*
Materials consumed	**203,084**	394,304
Sub-contracting costs	**171,846**	199,522
Employees' and labour costs	**142,102**	168,653
Depreciation (note 15)	**7,887**	7,639
Others direct costs	**33,618**	24,495
	558,537	794,613

9 SELLING AND DISTRIBUTION EXPENSES

	2021 SR'000	2020 SR'000
Employees' costs	**92,997**	72,969
Transportation	**19,979**	21,165
Warranties	**15,381**	18,385
Rent and utilities	**8,521**	5,729
Depreciation (note 15)	**4,839**	2,715
Advertising and sales promotion	**4,688**	4,651
Depreciation of right-of-use assets (note 16)	**8,013**	8,493
Business travel	**2,030**	1,263
Support services	**1,811**	4,235
Communication and IT services	**1,206**	962
Repairs and maintenance	**859**	690
Others	**9,350**	12,711
	169,674	153,968

10 GENERAL AND ADMINISTRATION EXPENSES

	2021 SR'000	2020 SR'000
Employees' costs	**220,519**	223,564
Allowance for expected credit losses (notes 22 and 23)	**99,201**	46,513
Communication and IT services	**23,175**	22,540
Depreciation (note 15)	**16,855**	17,147
Rent and utilities	**9,883**	6,494
Professional and legal fees	**7,852**	6,781
Repairs and maintenance	**3,055**	4,049
Business travel	**2,031**	2,552
Depreciation of right-of-use assets (note 16)	**1,757**	428
Office supplies	**552**	2,185
Others	**31,609**	21,518
	416,489	353,771

11 OTHER INCOME, NET

	2021 SR'000	2020 SR'000
Foreign currency exchange gains (losses)	**1,247**	(1,667)
(Loss) gain on disposal of property, plant and equipment	**(1,570)**	10,445
Others	**26,615**	29,642
	26,292	38,420

12 FINANCE COSTS

	2021 SR'000	2020 SR'000
Interest on debts and borrowings	**44,743**	61,775
Interest cost on employees' defined benefit obligation (note 29)	**4,623**	6,790
Interest on lease liabilities (note 16)	**2,081**	2,803
Amortisation of loan upfront fees (note 28)	**512**	4,091
	51,959	75,459

13 DISCONTINUED OPERATIONS

13.1 During the year, the executive management had decided to discontinue with one of the subsidiary's branch operations. The results of the branch have been classified as discontinued operations in the consolidated statement of profit or loss. The results of the discontinued branch for the year are presented below:

	2021	*2020*
	SR'000	*SR'000*
Revenues	**12,221**	-
Expenses	**(13,354)**	(21,294)
Operating loss	**(1,133)**	(21,294)
Finance costs:		
Employees' defined benefit liabilities (note 29)	**(86)**	(171)
Lease liability (note 16)	**(2,055)**	(2,152)
Loss from discontinued operations	**(3,274)**	(23,617)
Amount included in other comprehensive income:		
Actuarial (loss) gain on defined benefit liabilities	**(21)**	40
The net cash flows incurred are as follows:		
Operating	**(1,570)**	4,314
Investing	**268**	(484)
Financing	**(474)**	(4,643)
Net cash outflow	**(1,776)**	(813)

Net carrying value of the building amounting to SR 18.4 million is held for sale as management is looking for a buyer to sell this building. The sale is expected within a year from the reporting date. The building has been classified as assets held for sale in the statement of financial position at lower of its carrying amount and fair value less costs to sell. The building is constructed on a leasehold land and will be transferred to the buyer upon the sale of the building. Accordingly, the related right-of-use assets and lease liability are amounting to SR 32 million and SR 34 million, respectively. The depreciation charge and interest expense for right-of-use assets and leases are amounting to SR 2.3 million (2020: SR 2.3 million) and SR 2 million (2020: SR 2.2 million), respectively. All other assets and liabilities are immaterial to the consolidated financial statements of the Group.

13.2 During the previous year, the executive management had decided to discontinue with one of the subsidiary's operations. The results of the operations have been classified as discontinued operations in the prior year consolidated statement of profit or loss. The results of the discontinued operations for the year are presented below:

	2020
	SR'000
Revenues	131,110
Expenses	(144,670)
Operating loss	(13,560)
Finance costs:	
Interest expense on short-term borrowings (note 32)	(1,381)
Employees' defined benefit liabilities (note 29)	(287)
Lease liability (note 16)	(186)
Loss before zakat from discontinued operations	(15,414)
Zakat expense	(1,080)
Loss for the year from discontinued operations	(16,494)

13 DISCONTINUED OPERATIONS (continued)

	2020
	SR'000
Amount included in other comprehensive income:	
Actuarial loss on defined benefit schemes	(131)
The net cash flows incurred are as follows:	
Operating	18,261
Investing	1,429
Financing	(1,317)
Net cash inflow	18,373

Net carrying value of the property, plant and equipment amounting to SR 790 thousands were related to discontinued operations are used in continuing operations and had not been classified as assets held for sale in prior year statement of financial position. The total depreciation charge included SR 2.5 million from that assets. The depreciation charge and interest expense for right-of-use assets and leases were amounted to SR 1,092 thousands and SR 186 thousands, respectively. All other assets and liabilities were immaterial to the consolidated financial statements of the Group.

14 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net loss for the year attributable to the shareholders of the parent company by the weighted average number of outstanding shares during the year as follows:

	2021	*2020*
Net loss for the period attributable to the shareholders of the parent company (SR '000):		
Continuing operations	**(156,143)**	(119,762)
Discontinued operations	**(3,274)**	(40,111)
	(159,417)	(159,873)
Weighted average number of outstanding shares during the year (share *'000*)	**60,000**	60,000
Earning per share from net loss	***SR***	*SR*
Basic and diluted earnings per share attributable to the shareholders of the parent company	**(2.66)**	(2.66)
Earning per share for continuing operations		
Basic and diluted earnings per share attributable to the shareholders of the parent company	**(2.60)**	(2.00)
Earning per share for discontinued operations		
Basic and diluted earnings per share attributable to the shareholders of the parent company	**(0.06)**	(0.66)

15 PROPERTY, PLANT AND EQUIPMENT

	Freehold land SR '000	*Buildings SR '000*	*Machinery SR '000*	*Furniture, fixtures and equipment SR '000*	*Motor vehicles SR '000*	*Capital work-in-progress SR '000*	***Total SR '000***
Cost:							
At 1 January 2020	112,918	942,862	1,639,177	238,094	107,685	1,455	**3,042,191**
Additions	-	10,549	9,166	2,967	1,321	16,209	**40,212**
Transfer	-	225	2,174	1,226	-	(3,625)	**-**
Disposals	(5,024)	(11,504)	(23,682)	(3,632)	(4,059)	-	**(47,901)**
Foreign currency translation	(133)	(833)	(705)	(401)	33	-	**(2,039)**
At 31 December 2020	107,761	941,299	1,626,130	238,254	104,980	14,039	**3,032,463**
Additions	-	6,306	10,378	13,330	1,772	21,543	**53,329**
Transfer	-	921	28,186	3,904	-	(33,011)	**-**
Disposals	(10,655)	(12,224)	(161,220)	(21,870)	(3,159)	(709)	**(209,837)**
Transfer to asset held for sale (note 13)	-	(110,314)	-	-	-	-	**(110,314)**
Foreign currency translation	5	(527)	(789)	(472)	(5)	2	**(1,786)**
At 31 December 2021	**97,111**	**825,461**	**1,502,685**	**233,146**	**103,588**	**1,864**	**2,763,855**
Depreciation and impairment:							
At 1 January 2020	15,027	538,694	1,227,382	203,888	96,492	-	**2,081,483**
Charge for the year	-	32,921	58,102	12,911	3,314	-	**107,248**
Impairment losses	-	19,458	721	1,877	-	-	**22,056**
Disposals	(4,222)	(11,078)	(22,623)	(3,592)	(4,053)	-	**(45,568)**
Foreign currency translation	(150)	(502)	(393)	(294)	30	-	**(1,309)**
At 31 December 2020	10,655	579,493	1,263,189	214,790	95,783	-	**2,163,910**
Charge for the year	-	27,538	52,011	10,908	4,024	-	**94,481**
Disposals	(10,655)	(12,214)	(158,935)	(21,469)	(3,136)	-	**(206,409)**
Transfer to asset held for sale (note 13)	-	(91,877)	-	-	-	-	**(91,877)**
Foreign currency translation	-	(195)	(531)	(371)	(6)	-	**(1,103)**
At 31 December 2021	**-**	**502,745**	**1,155,734**	**203,858**	**96,665**	**-**	**1,959,002**
Net book amounts:							
At 31 December 2021	**97,111**	**322,716**	**346,951**	**29,288**	**6,923**	**1,864**	**804,853**
At 31 December 2020	97,106	361,806	362,941	23,464	9,197	14,039	868,553

15 PROPERTY, PLANT AND EQUIPMENT (continued)

15.1 During the prior year, the management had performed the valuation exercise for property, plant and equipment of one of its subsidiaries based in United Arab Emirates due to the indications for the impairment. The management followed the fair value less costs of disposal approach. As a result of the valuation, an impairment loss of SR 22,056 thousands was recognised in consolidated statement of profit or loss. The valuation exercise was carried out by ValuStrat, an independent valuer, not related to the Group, holding a license number 743808. ValuStrat is a firm registered under Royal Institute of Chartered Surveyors. The fair value had been determined based on the market comparative approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

15.2 The majority of the buildings are constructed on plots of land leased from The Saudi Industrial Property Authority (MODON) in Riyadh and first and second industrial city - Dammam for periods range from 4 to 25 years with various commencing dates from 2010. The Group has right to renew these lease agreements.

15.3 Capital work-in-progress represents mainly the cost incurred in respect of new building, expansion, upgrading of production facilities, new production line and machinery and equipment acquired for general modernisation. During the year, an amount of SR 33 million (2020: SR 4 million) has been transferred to the respective asset class.

15.4 Property, plant and equipment amounting to SR 15 million (2020: 61 SR million) net book value are mortgaged as a security against the loans obtained from the financial institutions (notes 28 and 32).

16 LEASES

The Group has lease contracts for plots of land and buildings used in its operations. Leases of plots of land and buildings generally have lease terms between 5 and 20 years. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios.

The Group also has certain leases with lease terms of 12 months or with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

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

	Plots of land	*Buildings*	*Total*
	SR '000	*SR '000*	*SR '000*
As at 1 January 2020	86,763	32,423	119,186
Derecognition	(1,081)	-	(1,081)
Depreciation expense	(8,822)	(13,094)	(21,916)
As at 31 December 2020	76,860	19,329	96,189
Additions	188	-	188
Derecognition	-	(3,887)	(3,887)
Depreciation expense	(8,060)	(13,094)	(21,154)
As at 31 December 2021	**68,988**	**2,348**	**71,336**

16 LEASES (continued)

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

	2021	*2020*
	SR'000	*SR'000*
At the beginning of the year	**91,238**	103,520
Interest expense	**4,136**	5,141
Additions	**188**	-
Derecognition	**(11,864)**	(981)
Payments	**(12,323)**	(16,442)
At the end of the year	**71,375**	91,238

	2021	*2020*
	SR'000	*SR'000*
Analysed as:		
Current	**16,763**	31,550
Non-current	**54,612**	59,688
	71,375	91,238

The maturity analysis of lease liabilities are disclosed in note 38.
The following are the amounts recognised in consolidated statement of profit or loss:

	2021	*2020*
	SR'000	*SR'000*
Depreciation expense of right-of-use assets	**21,154**	21,916
Interest expense on lease liabilities	**4,136**	5,141
Expense relating to short-term leases	**1,218**	1,253
Gain (loss) on derecognition of leases	**7,977**	(100)
Total amount recognised in consolidated statement of profit or loss	**34,485**	28,210

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

17 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

Carrying values of the Group's share for investment in associates and a joint venture were as follows:

	Percentage of ownership			
	2021	*2020*	***2021***	*2020*
			SR'000	*SR'000*
Associates				
Rabiah Nasser and Zamil Concrete Industries Company Limited - Saudi Arabia ("RANCO") (note 17.1)	**50%**	50%	**85,144**	83,964
IIB Paper Company Limited - Cayman Islands (note 17.2)	**20.83%**	20.83%	**-**	-
			85,144	83,964
Joint venture				
Middle East Air Conditioners Company Limited (note 17.3)	**51%**	51%	**6,120**	10,774
			6,120	10,774
			91,264	94,738

17 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (continued)

The following table illustrates the summarised financial information of the Group's investment in associates:

	RANCO	*IIB Paper Company Limited - Cayman Islands*	***Total***
	SR'000	*SR'000*	***SR'000***
Summarised statement of financial position for associates			
31 December 2021			
Current assets	**197,907**	**2**	
Non-current assets	**142,618**	**-**	
Current liabilities	**(143,448)**	**(1,179)**	
Non-current liabilities	**(26,790)**	**-**	
Net assets	**170,287**	**(1,177)**	
Proportion of the Group's ownership	**50%**	**20.83%**	
Group's share of net assets	**85,144**	**-**	
Group's carrying amount of the investment	**85,144**	**-**	**85,144**
31 December 2020			
Current assets	225,422	2	
Non-current assets	148,937	-	
Current liabilities	(181,472)	(1,006)	
Non-current liabilities	(24,959)	-	
Net assets	167,928	(1,004)	
Proportion of the Group's ownership	50%	20.83%	
Group's share of net assets	83,964	-	
Group's carrying amount of the investment	83,964	-	83,964

RANCO's banker has provided guarantees to various third parties on behalf of the Company, amounting to SR 66 million (2020: SR 92 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 December 2021

17 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (continued)

	RANCO	*IIB Paper Company Limited - Cayman Islands*	***Total***
	SR'000	*SR'000*	***SR'000***
Summarised statements of comprehensive profit or loss for associates			
31 December 2021			
Revenue	**224,469**	**-**	
Operating profit	**13,739**	**-**	
Net profit (loss) for the year	**15,783**	**(173)**	
Other comprehensive loss	**(1,711)**	**-**	
Total comprehensive income (loss) for the year	**14,072**	**(173)**	
Group's share of total comprehensive income (loss)	**7,036**	**(36)**	**7,000**
31 December 2020			
Revenue	290,231	-	
Operating profit	43,893	-	
Net profit (loss) for the year	42,033	(136)	
Other comprehensive income	59	-	
Total comprehensive income (loss) for the year	42,092	(136)	
Group's share of total comprehensive income (loss)	24,864	(28)	24,836

17 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (continued)

17.1 Rabiah Nasser and Zamil Concrete Industries Company Ltd ("RANCO") which is registered in Saudi Arabia and engaged in the production of concrete products, asphalt and polystyrene.

17.2 IIB Paper Company Limited is registered in Cayman Islands and is engaged in the production of tissue paper. In previous years, the Group recognised its share in loss for the year up to the carrying value of the investment.

17.3 Middle East Air Conditioners Company Limited is registered in Kingdom of Saudi Arabia and is engaged in sale of air conditioners. Summarised financial information of the joint venture, based on its financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements is set out below:

Summarised statement of financial position for joint venture

	2021 ***SR'000***	*2020* *SR'000*
Current assets (including bank balances and cash of SR 3.4 million, 2020: SR 1.2 million)	**22,751**	41,274
Non-current assets	**-**	7
Current liabilities (including zakat and income tax provision of SR 0.33 million, 2020: SR 0.3 million)	**(10,380)**	(20,039)
Non-current liabilities	**(15)**	(420)
Net assets	**12,356**	20,822
Proportion of the Group’s ownership	**51%**	51%
Group's share of net assets	**6,302**	10,619
Other adjustments	**(182)**	155
Group's carrying amount of the investment	**6,120**	10,774

Summarised statement of comprehensive income for joint venture

	2021 ***SR'000***	*2020* *SR'000*
Revenues	**20,293**	36,164
Cost of sales	**(20,487)**	(31,724)
Selling and distribution expenses	**(1,486)**	(2,950)
General and administrative expenses	**(6,897)**	(1,492)
Other income	**40**	260
(Loss) profit before zakat and income tax	**(8,537)**	258
Zakat and income tax	**(588)**	(312)
Total comprehensive loss for the year	**(9,125)**	(54)
Group's share of total comprehensive income for the year	**(4,654)**	(28)

18 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 ***SR'000***	*2020* *SR'000*
Kinan International For Real Estate Development Company Limited	**52,359**	53,650

18 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Reconciliation of fair value of unquoted equity shares classified as equity instruments at fair value through other comprehensive income is as follows:

	2021	*2020*
	SR '000	*SR '000*
At the beginning of the year	**53,650**	39,140
Remeasurements recognised in consolidated statement of comprehensive income	**9,111**	14,510
Reduction in share capital	**(10,402)**	-
At the end of the year	**52,359**	53,650

This investment represents 2.11% share in Kinan International For Real Estate Development Company Limited, an unlisted company which is registered in Saudi Arabia and is engaged in real estate activities.

During the year, the shareholders of Kinan International For Real Estate Development Company Limited have passed a resolution to reduce the number of shares of the Company from 169,400 thousands to 120,000 thousands and a share capital from SR 1,694,000 thousands to SR 1,200,000 thousands through payment of cash. The legal formalities related to reduction in share capital were completed during the year.

19 NET INVESTMENT IN FINANCE LEASE

Eastern District Cooling Company ("EDCC"), a subsidiary, entered into an energy performance contract during 2008 with Saudi Iron and Steel Company ("Hadeed") for a period of 20 years. As per the terms stipulated in the agreement it is agreed to design, construct, operate and maintain a District Cooling Plant (DCP) at the premises of Hadeed. At the end of the contract term all the rights, title and interest in the DCP will be transferred to Hadeed for an all-inclusive lump sum payment of SR 53.3 million. During 2013, the construction of DCS was completed and it was transferred to Hadeed under finance lease agreement on 1 April 2013.

The net investment in finance lease and the future minimum lease payments are as follows:

a) Net investment in finance lease consists of:

	2021	*2020*
	SR'000	*SR'000*
Gross investments in finance lease (see (b) below)	**353,901**	391,480
Less: Unearned finance income	**(61,395)**	(74,375)
	292,506	317,105

	2021	*2020*
	SR'000	*SR'000*
Analysed as:		
Net investment in finance lease, current	**25,662**	24,598
Net investment in finance lease, non-current	**266,844**	292,507
	292,506	317,105

b) The future minimum lease payments to be received consists of:

	2021	*2020*
	SR'000	*SR'000*
Within one year	**37,577**	37,578
After one year but not more than five years	**187,888**	187,888
Five years onwards	**128,436**	166,014
	353,901	391,480

20 GOODWILL

In previous years, the Group performed its annual impairment test at each reporting date. As at 31 December 2020, the recoverable amount of GIG is determined based on a value in use calculation using cash flow projection from financial budgets approved by senior management covering a five-year period. The projected cash flows projections have been updated to reflect the future demands of the products of GIG. The cash flows beyond the five year period were extrapolated using a 2.3% growth rate that was same as the long term average growth rate for the industry in which the GIG operates. The recoverable amount was based on the CGU's value in use using a pre-tax discount rates of 15.5% to 16.3%.

As a result of the analysis in prior year, the carrying amount exceeded the estimated recoverable amount of CGU by approximately SR 21.1 million and the full impairment was allocated to goodwill.

21 INVENTORIES

	2021	*2020*
	SR'000	*SR'000*
Raw materials	**685,899**	567,430
Finished goods	**379,861**	365,862
Work in progress	**166,377**	127,909
Goods in transit	**138,931**	50,920
Spares	**64,280**	55,664
	1,435,348	1,167,785

22 ACCOUNTS RECEIVABLE

	2021	*2020*
	SR'000	*SR'000*
Trade accounts receivable	**1,890,669**	1,777,093
Receivables from related parties (note 35)	**49,047**	67,573
Retentions receivable	**238,230**	187,631
	2,177,946	2,032,297
Less: allowance for impairment of receivables	**(402,472)**	(313,668)
	1,775,474	1,718,629

For terms and conditions related to related parties receivables, refer to note 35.

Trade receivables are non-interest bearing and are generally on terms of 30 to 180 days. Movement in the allowance for expected credit losses of trade receivables is as follows:

	2021	*2020*
	SR'000	*SR'000*
At the beginning of the year	**313,668**	325,311
Allowance for expected credit losses - continuing operations	**93,085**	43,722
Allowance for expected credit losses - discontinued operations	**-**	857
Written-off during the year	**(3,859)**	(55,926)
Exchange differences	**(422)**	(296)
At the end of the year	**402,472**	313,668

Information about the credit exposures on accounts receivable is disclosed in note 38.

23 CONTRACT ASSETS

	2021	*2020*
	SR'000	*SR'000*
Value of the work executed to date	**568,959**	596,653
Unbilled revenues	**90,182**	19,562
	659,141	616,215

23 CONTRACT ASSETS (continued)

	2021	*2020*
	SR'000	*SR'000*
Value of the work executed to date	**2,404,537**	2,021,400
Less: Amounts received and receivable as progress billings	**(1,820,390)**	(1,415,108)
	584,147	606,292
Less: allowance for expected credit losses	**(15,188)**	(9,639)
	568,959	596,653

Information about the credit exposures on contract assets is disclosed in note 38.

24 ADVANCES, OTHER RECEIVABLES AND PREPAYMENTS

	2021	*2020*
	SR'000	*SR'000*
Advances to suppliers	**125,299**	77,009
Prepaid expenses	**21,919**	25,748
Other receivables	**90,519**	80,997
	237,737	183,754

25 CASH AND CASH EQUIVALENTS

	2021	*2020*
	SR'000	*SR'000*
Bank balances and cash	**229,412**	131,171
Short-term deposits	**51,049**	24,921
	280,461	156,092

The average interest rate on the short-term deposits during the year was 3.3% to 5% per annum (2020: 4% to 6% per annum).

26 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 60 million shares (2020: same) of SR 10 each (2020: same).

27 MATERIAL PARTIALLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	*Country of incorporation*	***2021***	*2020*
Gulf Insulation Group	Kingdom of Saudi Arabia	**49%**	49%

Accumulated balances of material non-controlling interest:

	2021	*2020*
	SR'000	*SR'000*
Gulf Insulation Group	**161,505**	184,547

Profit allocated to material non-controlling interest:

	2021	*2020*
	SR'000	*SR'000*
Gulf Insulation Group	**5,714**	8,918

27 MATERIAL PARTIALLY-OWNED SUBSIDIARIES (continued)

The summarised financial information of the above subsidiary is provided below. This information is based on amounts before inter-group eliminations.

Summarised statement of profit or loss:

	2021	*2020*
	SR'000	*SR'000*
Revenues	**177,509**	182,664
Cost of sales	**(115,956)**	(120,715)
Other operating expenses	**(46,258)**	(46,605)
Other income	**(1,859)**	1,732
Finance costs	**(2,119)**	(3,745)
Profit before zakat	**11,317**	13,331
Zakat and income tax	**(160)**	365
Net profit for the year	**11,157**	13,696
Other comprehensive (loss) income for the year	**(2,069)**	168
Total comprehensive income for the year	**9,088**	13,864
Attributable to non-controlling interests	**5,714**	8,918
Dividends paid to non-controlling interests	**23,808**	9,800

Summarised statement of financial position:

	2021	*2020*
	SR'000	*SR'000*
Non-current assets	**284,328**	289,268
Current assets	**121,947**	115,324
Non-current liabilities	**(28,684)**	(26,716)
Current liabilities	**(120,187)**	(98,134)
Total Equity	**257,404**	279,742
Attributable to:		
Shareholders of the parent company	**95,899**	95,195
Non-controlling interests	**161,505**	184,547

Summarised cash flow information for year ended:

	2021	*2020*
	SR'000	*SR'000*
Cash flows from operating activities	**43,782**	60,601
Cash used in investing activities	**(19,892)**	(3,920)
Cash used in financing activities	**(13,292)**	(60,047)
Net increase (decrease) in the cash and cash equivalents	**10,598**	(3,366)

28 TERM LOANS

	2021	*2020*
	SR'000	*SR'000*
Term loan	**32,265**	-
Saudi Industrial Development Fund ("SIDF")	**15,400**	181,242
	47,665	181,242
Less: SIDF prepaid financial charges	**(417)**	(929)
	47,248	180,313
Less: Current portion:		
Term loan	**(30,456)**	-
Saudi Industrial Development Fund ("SIDF")	**(9,752)**	(165,803)
	(40,208)	(165,803)
Non-current portion:		
Term loan	**1,809**	-
Saudi Industrial Development Fund ("SIDF")	**5,231**	14,510
	7,040	14,510

During the year, the Group obtained a non-conventional loan of SR 32.3 million from banks to finance working capital of its subsidiaries. The loans are secured by a mortgage on the Group's property, plant and equipment (note 15). The loans are repayable in unequal instalments. The loans carry financial charges at prevailing market borrowing rates.

The Group is required to comply with certain covenants which include, among other things, certain financial ratios to be maintained under all the loan facility agreements mentioned above.

During the year, the Group has charged an amortization of SR 512 thousands (2020: SR 2.2 million) in respect of prepaid financing cost.

Following are the combined aggregate amounts of future maturities of the term loans:

	SR'000
2022	**40,356**
2023	**4,233**
2024	**2,796**
2025	**280**
	47,665

29 EMPLOYEES' DEFINED BENEFIT LIABILITIES

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations at 31 December 2021 and 31 December 2020 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements. The main actuarial assumptions used to calculate the defined unfunded benefit obligation are as follows:

	2021	*2020*
Discount rate	**2.65%**	2.20%
Expected rate of salary increase	**2.30%**	1.70%

29 EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)

The break up of net benefit costs charged to consolidated statement of profit or loss is as follows:

	2021	*2020*
	SR'000	*SR'000*
Current service cost	**26,487**	29,074
Interest cost on benefit obligation	**4,709**	7,248
Net benefit expense	**31,196**	36,322

Changes in the present value of defined unfunded benefit obligation is as follows:

	2021	*2020*
	SR'000	*SR'000*
At the beginning of the year	**213,236**	234,332
Net benefit expense	**31,196**	36,322
Benefits paid	**(30,579)**	(55,593)
Remeasurement loss (gain) on employees' defined benefit liabilities	**15,281**	(1,825)
At the end of the year	**229,134**	213,236

Employees' defined benefit obligations due to a reasonable possible change in the significant actuarial assumptions, as at 31 December 2021 and 2020 is, as show below:

	2021	*2020*
	SR'000	*SR'000*
Discount rate:		
0.5% increase	**214,023**	198,339
0.5% decrease	**235,067**	218,701
Future salary increase:		
0.5% increase	**234,541**	218,205
0.5% decrease	**214,408**	198,697

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

The following payments are expected against the defined benefit liability in future years:

	2021	*2020*
	SR'000	*SR'000*
Within the next 12 months (next annual reporting period)	**16,203**	14,184
Between 2 and 5 years	**81,508**	70,427
Beyond 5 years but less than 10 years	**137,539**	122,102

The average duration of the defined benefit plan obligation at the end of the reporting period is 9.29 years (2020: 9.71 years).

30 ACCOUNTS PAYABLE

	2021	*2020*
	SR'000	*SR'000*
Trade accounts payable	**574,550**	410,012
Retentions payable	**30,336**	30,401
Related parties (note 35)	**19,655**	16,178
	624,541	456,591

Trade payables are non-interesting bearing and are normally settled on 30 to 120 days terms. For terms and conditions with related parties, refer to note 35. For explanations on the Group's liquidity risk management processes, refer to note 38.

31 ACCRUALS AND PROVISIONS

	2021	*2020*
	SR'000	*SR'000*
Accrued expenses	**317,856**	246,273
Accrued contract costs	**146,907**	127,876
Warranties provision	**11,288**	11,989
	476,051	386,138

32 SHORT TERM LOANS

	2021	*2020*
	SR'000	*SR'000*
Murabaha and tawarruq finances	**2,360,673**	2,116,023
Short term loans - conventional	**74,696**	45,527
	2,435,369	2,161,550

The short term loans, Murabaha and Tawarruq finances were obtained from various local banks to meet the working capital requirements. These loans are secured by promissory notes and assignment of corporate guarantees and a mortgage on the Group's property, plant and equipment (note 15). These borrowings carry commission charges at prevailing market borrowing rates. The effective commission rate for the year ended 31 December 2021 is 1.7% per annum (2020: 2.5% per annum).

33 CONTRACT LIABILITIES

	2021	*2020*
	SR'000	*SR'000*
Advances from customers	**540,042**	300,313
Billings in excess of value of work executed	**96,214**	102,458
	636,256	402,771

Billings in excess of value of work executed comprise of following:

	2021	*2020*
	SR'000	*SR'000*
Progress billings received or receivable	**1,693,024**	947,621
Less: value of work executed	**(1,596,810)**	(845,163)
	96,214	102,458

34 ZAKAT AND INCOME TAX

The major components of zakat and income tax expense for the year ended 31 December 2021 and 2020 are:

Consolidated statement of income

	2021	*2020*
	SR'000	*SR'000*
Zakat and current income tax:		
Current year income tax charge	**9,584**	672
Zakat charge	**7,685**	13,453
Deferred tax (credit) charge	**(1,382)**	1,975
	15,887	16,100

Movement in zakat and income tax for the year was as follows:

	2021	*2020*
	SR '000	*SR '000*
At the beginning of the year	**42,598**	44,809
Current year provision	**17,269**	14,125
Payments during the year	**(12,539)**	(16,298)
Exchange differences	**1**	(38)
At the end of the year	**47,329**	42,598

34.1 Zakat

Charge for the year

The zakat charge consists of:

	2021	*2020*
	SR '000	*SR '000*
Current year provision	**7,685**	13,453

The provision for the year is based on zakat base of the Company and its wholly owned Saudi subsidiaries as a whole and individual zakat base of other Saudi subsidiaries.

Status of assessments

The status of assessments of the Company including its wholly owned subsidiaries and major partially owned subsidiaries are as follows:

i) The Company and its wholly owned subsidiaries

The zakat assessments of the Company and its wholly owned Saudi subsidiaries as a whole have been agreed with the Zakat, Tax and Customs Authority (the "ZATCA") up to 2013. During the prior year, the ZATCA issued assessments for the years 2014 to 2018 with an additional liability of SR 229.3 million against which the Group has filed an appeal against the assessment. The management believes that the outcome will be in the favour of the Group, accordingly, no additional provision has been provided in this year as well. Declarations for the years 2019 and 2020 have been filed with ZATCA. However, the assessments have not yet been raised by the ZATCA.

ii) Partially owned subsidiaries

Saudi Preinsulated Pipes Industries

Zakat assessments have been agreed with the ZATCA up to 2018. The zakat declarations for the years 2019 and 2020 have been filed with the ZATCA. However, the assessments have not yet been raised by the ZATCA.

Gulf Insulation Group

Zakat and income tax assessments have been agreed with the ZATCA up to 2018. The zakat declarations for the years 2019 and 2020 have been filed with the ZATCA. However, the assessments have not yet been raised by the ZATCA.

34 ZAKAT AND INCOME TAX (continued)

34.2 Income tax

Charge for the year

The income tax charge consists of:

	2021	*2020*
	SR '000	*SR '000*
Current year provision	**9,584**	672

Income tax provision is provided for in accordance with fiscal authorities in which the Group's subsidiaries operate.

Status of assessments

The status of assessment of the major foreign subsidiaries are as follows:

Zamil Air Conditioners India Private Limited

Income tax assessments have been agreed with the Department of Income Tax of India ("the DIT") up to the year ended 31 March 2012. The income tax returns for the years ended 31 March 2013 to 31 March 2021 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Steel Buildings India Private Limited - India

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2018. The income tax returns for the years from 2019 to 2021 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Construction India Private Limited

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2018. The income tax returns for the years from 2019 to 2021 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Information Technology Global Private Limited - India

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2017. The income tax returns for the years from 2018 to 2021 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT for any of the year.

Zamil Steel Engineering India Private Limited - India

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2019. The income tax returns of the company for the years ended 31 March 2020 and 31 March 2021 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT for any of the years.

Zamil Steel Buildings Vietnam Company Limited

Income tax assessments have been agreed with the tax authorities ("the TA") of Vietnam up to the year 2019. The income tax returns of the company for the year ended 31 December 2020 have been filed with the DIT.

Zamil Structural Steel - S.A.E - Private Free Zone

The company, was established under the free zone system according to the provision of Investment Guarantees and Incentive Law number 8 of 1997. Accordingly, the company is exempted from corporate taxes and withholding taxes and these privileges will continue to apply for the lifetime of the company.

Zamil Steel Buildings Company Egypt - S.A.E

Income tax assessments have been agreed with the Egyptian tax authorities ("the tax authorities") up to the year 2019. The income tax return for the year 2020 has been filed with the tax authorities. However, the final assessments have not yet been raised by tax authorities.

Income tax has been computed based on the management's understanding of the income tax regulations enforced in their respective countries. The income tax regulations are subject to different interpretations, and the assessments to be raised by the tax authorities could be different from the income tax returns filed by the respective company.

34.3 Deferred tax

Deferred tax assets

The deferred tax assets relate to foreign subsidiaries in Vietnam, Egypt and India. The subsidiary in Egypt has incurred losses over the last two financial years and such losses are available for next five years for offset against future taxable profits of the subsidiary. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the subsidiaries.

34 ZAKAT AND INCOME TAX (continued)

34.3 Deferred tax (continued)

Deferred tax assets (continued)

The deferred tax asset comprises of timing differences relating to:

	2021	*2020*
	SR'000	*SR'000*
Deferred tax asset		
Accruals and provisions	**6,197**	3,742
Total deferred tax assets	**6,197**	3,742
Deferred tax liability		
Accelerated depreciation for tax purposes	**(1,034)**	(1,032)
Total deferred tax liability	**(1,034)**	(1,032)
Net deferred tax asset	**5,163**	2,710

Reconciliation of deferred tax assets, net was as follows:

	2021	*2020*
	SR '000	*SR '000*
At the beginning of the year	**2,710**	6,024
Tax benefit (expense) during the year recognised in consolidated statement of profit or loss	**2,457**	(3,286)
Exchange differences	**(4)**	(28)
At the end of the year	**5,163**	2,710

Deferred tax liabilities

The deferred tax liabilities relates to a partially owned Saudi subsidiary with a foreign shareholder. The deferred tax liabilities comprise of timing differences relating to:

	2021	*2020*
	SR'000	*SR'000*
Deferred tax liability		
Accelerated depreciation for tax purposes	**9,284**	8,088
Total deferred tax liability	**9,284**	8,088
Deferred tax asset		
Employees' defined benefit liabilities	**785**	740
Allowance for doubtful debts	**1,256**	1,209
Allowance for slow moving inventories	**91**	62
Total deferred tax assets	**2,132**	2,011
Net deferred tax liability	**7,152**	6,077

Reconciliation of deferred tax liabilities, net was as follows:

	2021	*2020*
	SR'000	*SR'000*
At the beginning of the year	**6,077**	7,388
Tax expense (benefit) recognised in consolidated statement of profit or loss	**1,075**	(1,311)
At the end of the year	**7,152**	6,077

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

35 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by such parties.

The Group in the normal course of business carries out transactions with various related parties. Amounts due from/to related parties are shown under accounts receivable and accounts payable respectively. Transactions with related parties included in the consolidated statement of income are as follows:

Relationship and name of related party		*Sales to related parties*	*Purchases from related parties*	*Amounts owed by related parties*	*Amounts owed to related parties*
		SR'000	*SR'000*	*SR'000*	*SR'000*
Entity with significant influence over the Group					
Zamil Group Holding Company	***2021***	**48,907**	**23,486**	**14,922**	**18,890**
	2020	9,046	29,694	7,628	15,350
Arabian Gulf Construction Company	***2021***	**563**	**-**	**6,637**	**-**
	2020	7,870	-	10,065	-
Joint venture					
Middle East Air Conditioners Co. Ltd.	***2021***	**467**	**-**	**6,213**	**-**
	2020	22,880	-	17,689	-
Associates					
Rabiah Nasser & Zamil Concrete Industries Company Limited	***2021***	**-**	**-**	**12,938**	**-**
	2020	-	-	19,236	-
ZNA Infra Private Limited - India	***2021***	**-**	**-**	**8,220**	**-**
	2020	-	-	12,657	-
Other related parties		**443**	**23**	**117**	**765**
		-	-	298	828
Total	***2021***	**50,380**	**23,509**	**49,047**	**19,655**
	2020	39,796	29,694	67,573	16,178

Compensation of key management personnel of the Group were as follows:

	2021	*2020*
	SR'000	*SR'000*
Short-term employee benefits	**5,484**	5,409
Post-employment benefits	**343**	350
Total compensation	**5,827**	5,759

The directors' remuneration for the year ended 31 December 2021 amounted to SR 1.6 million (2020: SR 1.6 million) is also included in the above table.

35 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The amounts disclosed in the above table are the amounts recognised as an expense during the reporting period related to key management personnel.

Pricing policies and terms of payments of transactions with related parties are approved by the Board of Directors. Outstanding balances at the year end are unsecured, interest free and settled in cash.

The amounts due from and due to related parties have been classified as account receivables and account payables respectively in the consolidated statement of financial position (refer to note 22 and 30).

36 CONTINGENCIES AND COMMITMENTS

Guarantees

The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 1,253 million (2020: SR 989 million).

Capital commitments

The Board of Directors have approved future capital expenditure amounting to SR 34.4 million (2020: SR 21.5 million), relating to certain expansion projects.

37 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has four reportable segments, as follows:

- The air conditioners industry, which is engaged in production of window, split and central air conditioners, electrical and gas ovens, automatic dryers, microwave ovens, air-conditioning ducts/channels, household refrigerators, automatic washing machines and installation, maintenance, operation and leasing of air conditioning and refrigeration systems.
- The steel industry, which is engaged in construction, managing and operating industrial projects, constructing, managing and operating airports and warehouses, constructing and providing fire protection services for building and structures, building, repairing and maintaining the communication towers, business of steel sheets works, heavy equipment and its spare parts, storage tanks, installation containers and pumps and implementation of electric works.
- The insulation industry, which is engaged in production of complete line of insulation products including fiberglass for using in thermal insulation of central air conditioners, pre-insulated pipes, glass wool, rock wool and engineering plastic foam insulations.
- Corporate and others, which are engaged in providing corporate and shared services, training and investment activities.

The Board of Directors monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on income and is measured consistently in the consolidated financial statements.

37 SEGMENTAL INFORMATION (continued)

Inter-segment revenues are eliminated upon consolidation and reflected in the 'adjustments and eliminations' column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

Business segments

	For the year ended 31 December 2021 (SR '000)						
	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Revenue from contracts with customers:							
External customer	**1,322,330**	**1,996,971**	**190,595**	**941**	**3,510,837**	**-**	**3,510,837**
Inter-segment	**8,316**	**-**	**16,133**	**-**	**24,449**	**(24,449)**	**-**
	1,330,646	**1,996,971**	**206,728**	**941**	**3,535,286**	**(24,449)**	**3,510,837**
Finance lease income	**12,980**	**-**	**-**	**-**	**12,980**	**-**	**12,980**
Total revenue	**1,343,626**	**1,996,971**	**206,728**	**941**	**3,548,266**	**(24,449)**	**3,523,817**
Timing of revenue recognition:							
At a point in time	**1,040,259**	**1,613,888**	**206,728**	**941**	**2,861,816**	**(17,681)**	**2,844,135**
Over time	**290,387**	**383,083**	**-**	**-**	**673,470**	**(6,768)**	**666,702**
	1,330,646	**1,996,971**	**206,728**	**941**	**3,535,286**	**(24,449)**	**3,510,837**
Gross profit	**131,590**	**267,037**	**70,006**	**4,204**	**472,837**	**2,907**	**475,744**
Operating (loss) profit	**(144,010)**	**25,448**	**17,659**	**(14,646)**	**(115,549)**	**5,130**	**(110,419)**
Unallocated income (expenses):							
Share in results of associates and a joint venture							**2,382**
Other income, net							**26,292**
Finance costs							**(51,959)**
Loss before zakat and income tax and discontinued operations							**(133,704)**
Zakat and income tax							**(15,887)**
Discontinued operations							**(3,274)**
Net loss for the year							**(152,865)**

37 SEGMENTAL INFORMATION (continued)

Business segments (continued)

For the year ended 31 December 2020 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Revenue from contracts with customers:							
External customer	1,526,454	1,643,890	196,131	2,487	3,368,962	-	3,368,962
Inter-segment	11,354	210	14,806	-	26,370	(26,370)	-
	1,537,808	1,644,100	210,937	2,487	3,395,332	(26,370)	3,368,962
Finance lease income	14,000	-	-	-	14,000	-	14,000
Total revenue	1,551,808	1,644,100	210,937	2,487	3,409,332	(26,370)	3,382,962
Timing of revenue recognition:							
At a point in time	1,121,721	1,190,402	210,937	2,487	2,525,547	(16,414)	2,509,133
Over time	416,087	453,698	-	-	869,785	(9,956)	859,829
	1,537,808	1,644,100	210,937	2,487	3,395,332	(26,370)	3,368,962
Gross profit (loss)	159,575	216,695	69,419	(2,487)	443,202	3,159	446,361
Operating (loss) profit	(49,469)	(19,925)	17,562	(12,705)	(64,537)	3,159	(61,378)
Unallocated income (expenses):							
Share in results of associates and a joint venture							24,836
Other income, net							38,420
Finance costs							(75,459)
Reversal of impairment losses on non-current assets							(21,126)
Loss before zakat and income tax and discontinued operations							(94,707)
Zakat and income tax							(15,020)
Discontinued operations							(40,111)
Net loss for the year							(149,838)

At 31 December 2021 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Total assets	**2,711,002**	**2,282,580**	**451,340**	**440,755**	**5,885,677**	**(161,598)**	**5,724,079**
Total liabilities	**2,186,596**	**1,607,483**	**165,372**	**776,602**	**4,736,053**	**(161,598)**	**4,574,455**
Others:							
Investment in associates and a joint venture	**-**	**-**	**-**	**91,264**	**91,264**	**-**	**91,264**
Capital expenditure	**10,596**	**12,849**	**20,015**	**9,869**	**53,329**	**-**	**53,329**

37 SEGMENTAL INFORMATION (continued)

Business segments (continued)

	At 31 December 2020 (SR '000)						
	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Total assets	2,522,873	2,072,108	444,979	420,330	5,460,290	(184,870)	5,275,420
Total liabilities	1,831,464	1,288,637	146,433	908,520	4,175,054	(234,542)	3,940,512
Others:							
Investment in associates and a joint venture	10,774	-	-	83,964	94,738	-	94,738
Capital expenditure	11,741	20,074	4,475	3,922	40,212	-	40,212

Capital expenditure consists of additions of property, plant and equipment and intangible assets.

Geographic information

	2021	*2020*
	SR '000	*SR '000*
Revenue from external customers:		
Saudi Arabia	**2,541,582**	2,676,216
Other Asian countries	**476,155**	454,167
Africa	**506,080**	252,579
	3,523,817	3,382,962

	2021	*2020*
	SR '000	*SR '000*
Non-current operating assets:		
Saudi Arabia	**695,234**	732,147
Other Asian countries	**113,811**	161,662
Africa	**67,144**	70,933
	876,189	964,742

Non-current assets for this purpose consist of property, plant and equipment and right-of-use assets.

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial liabilities comprise loans and borrowings and accounts payables. The main purpose of these financial liabilities is to finance the Group’s operations. The Group’s principal financial assets include accounts receivables, net investment in finance lease, short-term deposits, cash and bank balances that derive directly from its operations. The Group also holds investment in unquoted shares that is classified as equity investment at fair value through other comprehensive income.

The Group is exposed to market risk, credit risk and liquidity risk. The Group’s senior management oversees the management of these risks. The Group’s senior management regularly review the policies and procedures to ensure that all the financial risks are identified, measured and managed in accordance with the Group’s policies and risk objectives. The Group does not engage into any hedging activities. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, short-term deposits and equity instruments at fair value through other comprehensive income. The sensitivity analyses in the following sections relate to the position as at 31 December 2021 and 2020.

Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Group’s exposure to the risk of changes in market commission rates relates primarily to the Group’s long-term and short-term loans and its short-term deposits. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates. At 31 December 2021 and 2020, the Group's exposure to commission rate risk was not significant as its major long-term and short-term loans were subject to fixed commission rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group’s exposure to the risk of changes in foreign exchange rates relates primarily to the Group’s operating activities (when revenue or expense is denominated in a foreign currency) and the Group’s net investments in foreign subsidiaries and associates. The Group did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars, Japanese Yen, Egyptian Pound, Indian Rupees, Bahraini Dinar, and Euros during the year. As Saudi Riyals are pegged to US Dollars, balances in US Dollars are not considered to represent significant currency risk. The Group is exposed to currency risk on transactions and balances in Euros, Japanese Yen, Indian Rupees, Bahraini Dinar and Egyptian Pound. The Group manages currency risk exposure to Euros, Japanese Yen, Indian Rupees, Bahraini Dinar and Egyptian Pound by continuously monitoring the currency fluctuations. At 31 December 2021 and 2020, the Group’s exposure to foreign currency changes for its accounts receivable and accounts payable was not material.

The Group is exposed to significant foreign currency changes on its net investment in foreign operations in Egyptian Pounds and India Rupees. The following tables demonstrate the sensitivity to a reasonably possible change in Egyptian Pound and Indian Rupee exchange rates, with all other variables held constant. The impact on the Group’s pre-tax equity is due to changes in the fair value of monetary assets and liabilities. The Group’s exposure to foreign currency changes for all other currencies is not material.

	Change in Egyptian Pound rate	*Effect on other components in equity*
		SR '000
31 December 2021	**+3%**	**1,574**
	-3%	**(1,574)**
31 December 2020	+3%	1,133
	-3%	(1,133)

	Change in Indian Rupee rate	*Effect on other components in equity*
		SR '000
31 December 2021	**+2%**	**955**
	-2%	**(955)**
31 December 2020	+2%	1,768
	-2%	(1,768)

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

a) Market risk (continued)

Commodity risk

The Group is exposed to the impact of market fluctuations of the price of various inputs to production including steel, electric parts, glass materials and electricity. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of such materials to manage the risk.

Equity price risk

The Group’s unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group’s senior management on a regular basis. The Group’s Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to unlisted equity securities at fair value was SR 52,359 thousands (2020: SR 53,650 thousands).

b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk on its bank balances, short-term deposits, accounts receivables, contract assets, net investment in finance lease and some other receivables as follows:

	2021	*2020*
	SR '000	*SR '000*
Bank balances	**226,728**	128,194
Short-term deposits	**51,049**	24,921
Accounts receivable	**1,775,474**	1,718,629
Contract assets	**659,141**	616,215
Net investments in finance lease	**292,506**	317,105
Other receivables	**90,519**	80,997
	3,095,417	2,886,061

Accounts receivable and contract assets

Customer credit risk is managed by each business unit subject to the Group’s established policy, procedures and control relating to customer credit risk management. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow ups.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses for each business unit of the Group. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. geographical region, product type, customer type and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group’s historical observed loss rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in a particular sector, the historical loss rates are adjusted. At every reporting date, the historical observed loss rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed loss rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group’s historical credit loss experience and forecast of economic conditions may also not be representative of customer’s actual loss in the future.

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Credit risk (continued)

Generally, accounts receivables are written-off if past due for more than three years and are not subject to enforcement activity. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured. At 31 December 2021, the Group has obtained letter of credits as collateral over its receivables amounting to SR 50.4 million (2020: 109.2 million) from its certain customers. The Group determined that such receivable are not exposed to significant credit risk and therefore have not been considered in ECL assessment. The Group evaluates the concentration of risk with respect to trade accounts receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Set out below is the information about the credit risk exposure at 31 December 2021 on the Group's accounts receivable and contract assets:

	Gross carrying amount SR'000	***Loss rate %***	***Expected credit losses SR'000***
Accounts receivable:			
Current	562,870	1%	5,050
Less than 30 days	147,522	5%	6,913
31- 60 days	88,711	3%	2,281
61 - 90 days	62,050	3%	1,776
91 - 180 days	142,746	6%	8,182
181 - 360 days	210,349	13%	28,285
More than 360 days	626,049	56%	348,298
Retentions receivable	238,230	1%	1,687
	2,078,527		402,472
Contract assets	674,329	2%	15,861
	2,752,856		**418,333**

Set out below is the information about the credit risk exposure at 31 December 2020 on the Group's accounts receivable and contract assets:

	Gross carrying amount SR'000	*Loss rate %*	*Expected credit losses SR'000*
Accounts receivable:			
Current	500,064	1%	4,497
Less than 30 days	153,913	2%	3,044
31- 60 days	64,831	3%	1,741
61 - 90 days	55,477	4%	2,219
91 - 180 days	88,396	5%	4,611
181 - 360 days	193,219	13%	25,563
More than 360 days	611,984	44%	270,762
Retentions receivable	187,631	1%	1,231
	1,855,515		313,668
Contract assets	625,854	2%	9,745
	2,481,369		323,413

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Credit risk (continued)

Based on a provision matrix, the Group's expected credit losses at 31 December 2021 against its accounts receivable and contract assets exposed to credit risk amounted to SR 402.5 million and SR 16 million (2020: R 313.7 million and SR 9.7 million) respectively. Accordingly, the Group recognised an amount of SR 99.2 million (2020: SR 46.5 million) as provision for expected credit losses in its consolidated statement of income for its continuing operations. Related parties receivable include an amount of SR nil (2020: SR 11.1 million) attributable to discontinued operations. The Group recognised an amount of SR nil (2020: 857 thousands) as provision for expected credit losses as part of its net loss on discontinued operations in the consolidated statement of profit or loss.

Bank balances and short term deposits

Credit risk from balances with banks and financial institutions is managed by the Group’s treasury department in accordance with the Group’s policy. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. At the reporting date, no significant concentration of credit risk were identified by the management.

c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to realize financial assets quickly at an amount close to its fair value. The Group manages its liquidity risk by monitoring working capital and cash flow requirements on regular basis. The Group manages its liquidity risk by ensuring that bank facilities are available. The Group's terms of sales require amounts to be paid within 30 to 180 days of the date of submitting the invoice. Trade payables are normally settled within 30 to 120 days of the date of purchase.

Excessive concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group’s performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group’s management focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

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

	As at 31 December 2021					
	on demand	***< 6 months***	***6 to 12 months***	***1 to 5 years***	***> 5 years***	***Total SR' 000***
Accounts payable	**19,655**	**604,886**	**-**	**-**	**-**	**624,541**
Lease liabilities	**-**	**8,818**	**7,945**	**39,674**	**38,078**	**94,515**
Other financial liabilities	**-**	**464,763**	**-**	**-**	**-**	**464,763**
Short term loans	**-**	**2,422,243**	**13,126**	**-**	**-**	**2,435,369**
Term loans	**30,000**	**3,900**	**6,456**	**7,308**	**-**	**47,664**
	49,655	**3,504,610**	**27,527**	**46,982**	**38,078**	**3,666,852**

	As at 31 December 2020					
	on demand	*< 6 months*	*6 to 12 months*	*1 to 5 years*	*> 5 years*	*Total SR' 000*
Accounts payable	16,178	440,413	-	-	-	456,591
Lease liabilities	-	20,685	10,865	39,656	48,330	119,536
Other financial liabilities	-	374,149	-	-	-	374,149
Short term loans	-	2,161,550	-	-	-	2,161,550
Term loans	8,000	21,000	137,042	15,200	-	181,242
	24,178	3,017,797	147,907	54,856	48,330	3,293,068

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

c) Liquidity risk (continued)

Changes in liabilities arising from financing activities:

	As at 31 December 2021			
	1 January 2021 SR' 000	***Cash inflow/others SR' 000***	***(Cash outflow) SR' 000***	***31 December 2021 SR' 000***
Short term loans	**2,161,550**	**20,591,098**	**(20,317,279)**	**2,435,369**
Term loans	**180,313**	**32,777**	**(165,842)**	**47,248**
Lease liabilities	**91,238**	**(7,540)**	**(12,323)**	**71,375**
Total liabilities from financing activities	**2,433,101**	**20,616,335**	**(20,495,444)**	**2,553,992**

	As at 31 December 2020			
	1 January 2020 SR' 000	*Cash inflow/others SR' 000*	*(Cash outflow) SR' 000*	*31 December 2020 SR' 000*
Short term loans	2,481,828	12,050,139	(12,370,417)	2,161,550
Term loans	192,386	4,520	(16,593)	180,313
Lease liabilities	103,520	4,159	(16,441)	91,238
Total liabilities from financing activities	2,777,734	12,058,818	(12,403,451)	2,433,101

39 CAPITAL MANAGEMENT

The primary objective of the Group’s capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2021 and the year ended 31 December 2020. Capital comprises share capital, statutory reserve, retained earnings and other reserves and is measured at SR 966,724 thousands as at 31 December 2021 (2020: SR 1,133,469 thousands).

40 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

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

As of reporting date, there were no Level 1, 2 or 3 assets or liabilities except for equity investments through other comprehensive income in unquoted shares and these have been valued using Level 3 valuation technique.

Financial assets consist of cash and cash equivalents, equity investments at fair value through other comprehensive income, accounts receivable, net investment in finance lease and some other current assets. Financial liabilities consist of term loans, short term loan, accounts payable and some other current liabilities. The fair values of financial assets and financial liabilities approximate to their carrying amounts.

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Set out below is a comparison, of the carrying amounts and fair values of the Group's equity investments at fair value through other comprehensive income:

	Carrying value	***Fair value***	***Fair value measurement using***		
			Level 1	***Level 2***	***Level 3***
	SR '000	***SR '000***	***SR '000***	***SR '000***	***SR '000***
31 December 2021					
Equity instruments at fair value through other comprehensive income					
At fair value	**52,359**	**52,359**	**-**	**-**	**52,359**
	52,359	**52,359**	**-**	**-**	**52,359**

	Carrying value	*Fair value*	*Fair value measurement using*		
			Level 1	*Level 2*	*Level 3*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*
31 December 2020					
Equity instruments at fair value through other comprehensive income					
At fair value	53,650	53,650	-	-	53,650
	53,650	53,650	-	-	53,650

The fair value of the Group's investments in unquoted equity shares at 31 December 2021 and 2020 have been measured using Level 3 (significant unobservable inputs). The Group estimated the fair value of the investment using adjusted net asset method at 31 December 2021 and 2020. The adjusted net asset method involves deriving the fair value of an investee's equity instruments by reference to the fair value of its assets and liabilities.

41 COMPARATIVE FIGURES

Certain of the prior year numbers have been reclassified to conform with the presentation in the current period. The reclassification is mainly related to the discontinued operations as mentioned in the note 13.

42 SUBSEQUENT EVENTS

In the opinion of management, there have been no further significant subsequent events since the year ended 31 December 2021 that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.