

**NAQI WATER COMPANY**  
(A SAUDI JOINT STOCK COMPANY )

**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**  
**AND INDEPENDENT AUDITOR'S REPORT**

**NAQI WATER COMPANY**  
**(A SAUDI JOINT STOCK COMPANY )**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

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## **INDEPENDENT AUDITOR'S REPORT**

**To the Shareholders of  
Naqi Water Company  
(A Saudi Joint Stock Company)  
Unaizah, Kingdom of Saudi Arabia**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of Naqi Water Company, (a Saudi Joint Stock Company) (“the Company”), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (“ISAs”) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company’s 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 financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Independent Auditor's Report on the audit of the financial statements of Naqi water Company for the year ended 31 December 2022 (continued).**

| Key Audit Matters   | How our audit addressed the key audit matter  |
|---|---|
| <p><b>Revenue recognition</b></p> <p>During the year ended 31 December 2022, the company recognized revenue of SAR 274.6 million.</p> <p>Revenue from sales is recognized when the customer obtains control of the goods and this is done when the goods are accepted and delivered to the customer and the sales invoice is issued in accordance with the requirements of International Financial Reporting Standard No. (15) Revenue from Contracts with Customers.</p> <p>The revenue recognition from sales was considered as one of the key audit matters, given that revenue from sales is one of the key performance indicators that include inherent risks of overstating revenue from sales.</p> | <p>Our audit procedures that we performed in relation to revenue from sales included, among other procedures the following:</p> <ul style="list-style-type: none"> <li>- Assessed the appropriateness of the Company's accounting policies relating to revenue recognition from sales, including those relating to discounts, as well as the extent of compliance with the requirements of applicable accounting standards;</li> <li>- Conducted analytical review procedures based on available information and compared it to the prior year, determining if there were any significant trends or changes that required additional audit procedures;</li> <li>- Tested samples of revenue from sales transactions during the year and assessed the appropriateness of management's estimates of performance obligations;</li> <li>- Performed Cut-off procedures on the timing of revenue recognition from sales after the products were delivered to the customers and recognized during the correct accounting period;</li> <li>- Inquired from management at various levels to assess their knowledge of the risk of fraud and to determine if actual cases of fraud were observed when recognizing revenue from sales;</li> <li>- Assessed the adequacy of relevant disclosures in the financial statements.</li> </ul> |
| <p>For more details, refer to notes No. (2-3) regarding the accounting policy, (19) and (27) regarding the related disclosures</p>  |   |

**Independent Auditor's Report on the audit of the financial statements of Naqi water Company for the year ended 31 December 2022 (continued).**

| Key Audit Matters (continued)   | How our audit addressed the key audit matter  |
|---|---|
| <p><b>Provision for expected credit losses of trade receivable</b></p>  |   |
| <p>As at 31 December 2022, the company's trade receivable balance amounted to SAR 17.4 million and the balance for expected credit losses amounted to SAR 1,17 million.</p> <p>The Company's management applied a simplified expected credit loss model to determine the expected credit loss of the trade receivable in accordance with the requirements of International Financial Reporting Standard No. (9) Financial Instruments.</p> <p>Given that the expected credit loss model is based on significant estimates and assumptions, we have considered the application of International Financial Reporting Standard No. 9 and calculating the impairment in trade receivables balances as one of the key audit matters.</p> | <p>Our audit procedures that we performed in relation to expected credit losses on trade receivable balances included, among other procedures the following:</p> <ul style="list-style-type: none"> <li>- Assessed the appropriateness of accounting policies related to credit losses in trade receivable balances and assessed the compliance with the requirements of applicable accounting standards;</li> <li>- Obtained an understanding of the procedure for determining credit losses in trade receivables;</li> <li>- Assessed the validity and classification of trade receivables in the aging of trade receivables report by matching a sample of trade receivables aging items with invoices and supporting documents;</li> <li>- Assessed the underlying assumptions and estimates that used by management, including those related to future economic events used in calculating the probability of default and expected loss given default and testing the mathematical accuracy of the expected credit loss model;</li> <li>- Assessed the adequacy of the relevant disclosures included in the financial statements.</li> </ul> |
| <p>For more details, refer to notes No. (4-G) regarding accounting estimates, and (10) for the related disclosures</p>  |   |

**Other information**

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Company (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

**Independent Auditor's Report on the audit of the financial statements of Naqi water Company for the year ended 31 December 2022 (continued).**

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

When we read the Annual Report of the Company, 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 Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA and Regulations for Companies and the Company's Bylaws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, in particular the Audit Committee, are responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the 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 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 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

**Independent Auditor's Report on the audit of the financial statements of Naqi water Company for the year ended 31 December 2022 (continued).**

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 Dr. Mohamed Al-Amri & Co.**



**Gihad Al-Amri**  
Certified Public Accountant  
Registration No. 362



Riyadh on: 13 Ramadan 1444 (H)  
Corresponding to: 4 April 2023 (G)

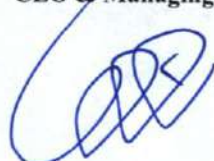
**NAQI WATER COMPANY**  
(A Saudi Joint Stock Company)  
**STATEMENT OF FINANCIAL POSITION**  
(In Saudi riyals)

|   | Note | As At 31 December  |                    |
|---|------|--------------------|--------------------|
|   |      | 2022               | 2021               |
| <b>ASSETS</b>   |      |                    |                    |
| <b>Non-current assets</b>   |      |                    |                    |
| Property ,Plant and equipment   | 5    | 146,387,220        | 161,277,195        |
| Advance payments for the purchase of property,<br>plant and equipment | 6    | 1,380,000          | 1,982,250          |
| Right of use Asset  | 7    | 2,911,197          | 933,493            |
| Intangible assets   | 8    | 1,016,233          | 1,126,994          |
|   |      | <u>151,694,650</u> | <u>165,319,932</u> |
| <b>Current assets</b>   |      |                    |                    |
| Inventories   | 9    | 22,681,031         | 22,553,507         |
| Trade and other Recievables   | 10   | 26,604,454         | 22,157,204         |
| Due from related parties  | 16   | 1,985,882          | 217,381            |
| Cash and cash equivalents   | 11   | 88,057,270         | 37,860,998         |
|   |      | <u>139,328,637</u> | <u>82,789,090</u>  |
| <b>TOTAL ASSETS</b>   |      | <u>291,023,287</u> | <u>248,109,022</u> |
| <b>EQUITY AND LIABILITIES</b>   |      |                    |                    |
| <b>EQUITY</b>   |      |                    |                    |
| Share capital   | 12   | 200,000,000        | 200,000,000        |
| Statutory reserve   | 13   | 12,598,306         | 7,727,599          |
| Retained earnings   |      | 36,883,080         | 206,346            |
|   |      | <u>249,481,386</u> | <u>207,933,945</u> |
| <b>LIABILITIES</b>  |      |                    |                    |
| <b>Non-current liabilities</b>  |      |                    |                    |
| Long term loan – Non Current Portion                                  | 14   | 8,241,864          | 12,095,334         |
| Employees' end of service benefits                                    | 15   | 3,744,106          | 2,283,822          |
| Lease liablitly   | 7    | 1,740,678          | 558,348            |
|   |      | <u>13,726,648</u>  | <u>14,937,504</u>  |
| <b>Current liabilities</b>  |      |                    |                    |
| Long term loan – Current Portion                                      | 14   | 4,755,671          | 4,755,671          |
| Due to related parties  | 16   | 707,876            | 6,899,820          |
| Trade and other payables  | 17   | 18,414,674         | 11,314,755         |
| Zakat   | 18   | 3,148,110          | 1,912,122          |
| Lease liablitly   | 7    | 788,922            | 355,205            |
|   |      | <u>27,815,253</u>  | <u>25,237,573</u>  |
| <b>TOTAL LIABILITIES</b>  |      | <u>41,541,901</u>  | <u>40,175,077</u>  |
| <b>TOTAL EQUITY AND LIABILITIES</b>                                   |      | <u>291,023,287</u> | <u>248,109,022</u> |

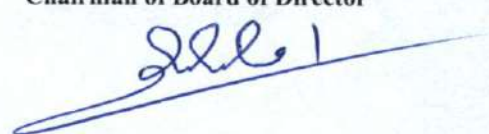
Chief financial officer



CEO & Managing director



Chairman of Board of Director



The accompanying notes from (1) to (32) form an integral part of these financial statements.



**Naqi Water Company**  
(A Saudi Joint Stock Company)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
(In Saudi Riyals)

|  | Note | For The Year Ended 31 December |                    |
|--|------|--------------------------------|--------------------|
|  |      | 2022                           | 2021               |
| Sales  | 19   | 274,649,545                    | 277,823,065        |
| Cost of sales  | 20   | (187,330,753)                  | (164,868,568)      |
| <b>Gross profit</b>  |      | <b>87,318,792</b>              | <b>112,954,497</b> |
| Selling and distribution expenses  | 21   | (24,663,876)                   | (24,220,794)       |
| General and administrative expenses  | 22   | (11,236,658)                   | (10,466,259)       |
| Other incomes /(expenses), net   | 23   | 4,434,047                      | 1,433,537          |
| Listing and initial public offering expenses                                       | 24   | (3,195,886)                    | -                  |
| <b>Operating profit</b>  |      | <b>52,656,419</b>              | <b>79,700,981</b>  |
| Finance cost   |      | (801,243)                      | (1,193,591)        |
| <b>Profit before zakat</b>   |      | <b>51,855,176</b>              | <b>78,507,390</b>  |
| Zakat expenses   | 18   | (3,148,110)                    | (1,231,403)        |
| <b>Net profit for the year</b>   |      | <b>48,707,066</b>              | <b>77,275,987</b>  |
| <b>Other comprehensive income:</b>   |      |                                |                    |
| <b>Item that will not be reclassified subsequently to profit or loss:</b>          |      |                                |                    |
| Actuarial (Losses)/ Gain from re-measurement on employees' end of service benefits | 15   | (355,511)                      | 395,190            |
| <b>Total comprehensive income for the year</b>                                     |      | <b>48,351,555</b>              | <b>77,671,177</b>  |
| Basic earnings per share   | 25   | 2,44                           | 3,86               |

Chief financial officer



CEO & Managing director



Chairman of Board of Director



The accompanying notes from (1) to (32) form an integral part of these financial statements.

**Naqi Water Company**  
(A Saudi Joint Stock Company)  
**STATEMENT OF CHANGES IN EQUITY**  
(In Saudi Riyals)

|  | Share capital | Statutory reserve | Retained earnings | Total        |
|--|---------------|-------------------|-------------------|--------------|
| For the year ended 31 December 2022  |               |                   |                   |              |
| <b>As at 1 January 2022</b>  | 200,000,000   | 7,727,599         | 206,346           | 207,933,945  |
| <b>Comprehensive income:</b>   |               |                   |                   |              |
| Net profit for the year  | -             | -                 | 48,707,066        | 48,707,066   |
| Other comprehensive income   | -             | -                 | (355,511)         | (355,511)    |
| <b>Total comprehensive income</b>  | -             | -                 | 48,351,555        | 48,351,555   |
| Transfer to statutory reserve  | -             | 4,870,707         | (4,870,707)       | -            |
| Amounts borne by the selling shareholders for listing and initial public offering expenses (note 24) | -             | -                 | 3,195,886         | 3,195,886    |
| Dividends (note 28)  | -             | -                 | (10,000,000)      | (10,000,000) |
| <b>As at 31 December 2022</b>  | 200,000,000   | 12,598,306        | 36,883,080        | 249,481,386  |
| For the year ended 31 December 2021  |               |                   |                   |              |
| <b>As at 1 January 2021</b>  | 150,000,000   | 7,795,482         | 6,467,286         | 164,262,768  |
| <b>Comprehensive income:</b>   |               |                   |                   |              |
| Net profit for the year  | -             | -                 | 77,275,987        | 77,275,987   |
| Other comprehensive income   | -             | -                 | 395,190           | 395,190      |
| <b>Total comprehensive income</b>  | -             | -                 | 77,671,177        | 77,671,177   |
| Transferred for capital increase (note 12)   | 50,000,000    | (7,795,482)       | (42,204,518)      | -            |
| Transfer to statutory reserve  | -             | 7,727,599         | (7,727,599)       | -            |
| Dividends (note 28)  | -             | -                 | (34,000,000)      | (34,000,000) |
| <b>As at 31 December 2021</b>  | 200,000,000   | 7,727,599         | 206,346           | 207,933,945  |

Chief financial officer



CEO & Managing director



Chairman of Board of Director



The accompanying notes from (10) to (32) form an integral part of these financial statements.

**Naqi Water Company**  
(A Saudi Joint Stock Company)  
**STATEMENT OF CASH FLOWS**  
(In Saudi Riyals)

|   | Note | For The Year Ended 31 December |                     |
|---|------|--------------------------------|---------------------|
|   |      | 2022                           | 2021                |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>  |      |                                |                     |
| Profit before zakat   |      | 51,855,176                     | 78,507,390          |
| <b>Adjustments :</b>  |      |                                |                     |
| Depreciation of Property ,Plant and equipment   | 5    | 21,349,389                     | 18,036,558          |
| Listing and initial public offering expenses  | 24   | 3,195,886                      | -                   |
| Amortization of intangible assets   | 8    | 131,861                        | 103,642             |
| Depreciation on Right-of-use asset  | 7    | 531,137                        | 283,776             |
| Provision for employees' end of service benefits  | 15   | 1,239,035                      | 1,598,181           |
| Provision for expected credit loss  | 10   | 1,132,950                      | -                   |
| Provisions no longer required   | 10   | (155,230)                      | -                   |
| Finance costs   |      | 801,243                        | 1,193,591           |
|   |      | <u>80,081,447</u>              | <u>99,723,138</u>   |
| <b>Working capital changes</b>  |      |                                |                     |
| Trade and other receivables   |      | (5,424,970)                    | (11,183,394)        |
| Inventories   |      | (127,524)                      | (6,284,789)         |
| Due from related parties  |      | (1,768,501)                    | (217,381)           |
| Trade and other payables  |      | 7,099,920                      | (730,322)           |
| Due to related parties  |      | (6,191,944)                    | 4,169,446           |
| <b>Cash generated from operating activities</b>   |      | <u>73,668,428</u>              | <u>85,476,698</u>   |
| Employees' end of service benefits paid   | 15   | (193,315)                      | (36,265)            |
| Zakat paid  | 18   | (1,912,122)                    | (2,751,525)         |
| <b>Net cash generated from operating activities</b>   |      | <u>71,562,991</u>              | <u>82,688,908</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |      |                                |                     |
| Additions to property ,plant and equipment  |      | (5,857,164)                    | (33,858,797)        |
| Proceeds from disposal of property, plant and equipment   |      | -                              | 58,867              |
| Advances for the purchase of property, plant and equipment  |      | -                              | (1,176,139)         |
| Additions to intangible assets  |      | (21,100)                       | (470,309)           |
| <b>Net cash used in investing activities</b>  |      | <u>(5,878,264)</u>             | <u>(35,446,378)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |      |                                |                     |
| Payments from loans   | 14   | (3,853,470)                    | (3,648,995)         |
| Finance costs paid  |      | (758,408)                      | (1,203,312)         |
| Lease liability   | 7    | (876,577)                      | (242,816)           |
| Dividends paid  | 28   | (10,000,000)                   | (34,000,000)        |
| <b>Net cash used in financing activities</b>  |      | <u>(15,488,455)</u>            | <u>(39,095,123)</u> |
| <b>Net change in cash and cash equivalents</b>  |      | <u>50,196,272</u>              | <u>8,147,407</u>    |
| Cash and cash equivalents at the beginning of the year  |      | <u>37,860,998</u>              | <u>29,713,591</u>   |
| <b>Cash and cash equivalents at the end of the year</b>   | 11   | <u>88,057,270</u>              | <u>37,860,998</u>   |
| <b>Non-Cash transaction from investment and financing :</b>   |      |                                |                     |
| Additions of property, plant and equipment against advance payments for the purchase of property, plant and equipment |      | (602,250)                      | (18,710,000)        |
| Capital increase from retained earnings and reserves  |      | -                              | 50,000,000          |

Chief financial officer

CEO & Managing director

Chairman of Board of Director

The accompanying notes from (1) to (32) form an integral part of these financial statements.

**Naqi Water Company**  
(A Saudi Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyals unless otherwise stated)

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**1. ORGANISATION AND ACTIVITIES**

Naqi Water Company (the “Company”), a joint stock company, registered in the city of Unaizah, Kingdom of Saudi Arabia, under Commercial Registration No. 1128018184 dated 27 Jumada al-Akhir 1435 AH corresponding to 27 April 2014. The company’s activity is in the production and bottling of pure filtered water.

On 7 Jumada al-Awwal 1443 AH corresponding to December 11, 2021, the Board of Directors approved the company’s initial public offering plan by offering 30% of the company’s shares for initial public subscription by submitting an application and registering the securities to the Capital Market Authority and the company in the market and listing them in the financial market (“Tadawul”).

On Shawwal 24, 1443 AH, corresponding to May 25, 2022, the Capital Market Authority announced its approval to offer 6,000,000 shares for public subscription, representing (30%) of the company’s shares.

The Saudi Capital Market Authority approved the listing of the company in the Saudi Stock Exchange (Tadawul) on Muharram 17, 1444 AH, corresponding to August 15, 2022.

The Regulatory procedures have been completed to amend the company’s articles of association to become a listed joint stock company on Rabi’ Al-Awwal 26, 1444 AH. Corresponding to October 26, 2022, as well as Commercial Registration No. 1128018184.

The company’s fiscal year begins on January 1 and ends on December 31 of each calendar year.

The company operates through its factory located in the city of Unaizah - Qassim according to the above-mentioned commercial register and the following sub-commercial registers:

Commercial register date

| <u>Serial</u> | <u>Commercial</u><br><u>Number</u> | <u>Register</u> | <u>Hijri</u>  | <u>Georgian</u>   | <u>City</u> |
|---------------|------------------------------------|-----------------|---------------|-------------------|-------------|
| 1             | 1010603193                         |                 | 03/13/1441 AH | November 11, 2019 | Riyadh      |
| 2             | 1128183653                         |                 | 05/17/1441 AH | January 13, 2020  | Unaizah     |

**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs), issued by the International Accounting Standards Board (IASB) as endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

Wherever the phrase “International Financial Reporting Standards” appears in these notes, it refers to the “International Financial Reporting Standards approved in the Kingdom of Saudi Arabia and other standards and issuances approved by the Saudi Organization for Chartered and Professional Accountants.” The approved international standards are international standards as issued by the International Council, in addition to the requirements and disclosures added by the Authority to some of these standards, in accordance with what was stated in the document of approval of international financial reporting standards. And other standards and publications mean what the Saudi Organization for Chartered and Professional Accountants approves of standards and technical opinions for topics not covered by international standards, such as the issue of Zakat.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyals unless otherwise stated)

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**2.2 Basis of measurement**

The financial statements have been prepared on the basis of historical cost except that the accruals of defined benefit obligations are measured at the present value of the future obligations using the expected unit addition method. In addition, the financial statements are prepared using the accrual basis of accounting and on the going concern principle.

**2.3 Functional and presentation currency**

These financial statements are presented in Saudi Riyals, which is the company's functional and presentation currency.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1 New standards, interpretations and amendments**

**3.1.1 New Standards and amendments**

The company adopted the following new standards and amendments for the first time, as of January 1, 2022:

**Amendments to IFRS 3, IAS 16, IAS 37**

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

The adoption of above amendments does not have any material impact on the Financial Statements during the year.

**3.1.2 Standards issued but not yet effective**

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted; however, the company has not early adopted them in preparing these Financial Statements.

**Amendments to IAS 1, 'Presentation of financial statements' on classification of liabilities**

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

**Amendments to IAS 1, Practice statement 2 and IAS 8**

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

**Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction** These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

**NOTES TO THE FINANCIAL STATEMENTS  
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(All amounts in Saudi Riyals unless otherwise stated)

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**3.2 Revenue recognition**

Revenue is recognized when the company fulfills its obligations in contracts with customers at an amount that reflects the financial compensation that the entity expects in exchange for the goods. Specifically, the standard provides a five-step model for revenue recognition:

Step One: Define the contract or contracts with clients.

Step Two: Determine the performance obligations in the contract.

Step Three: Determine the transaction price.

Step four: Allocate the transaction price to the performance obligations in the contract.

Step Five: Recognize revenue when the entity satisfies performance obligations.

- Revenue is recognized for the sales of bottled water upon performance of contractual obligations, i.e. when control of the goods entrusted with the performance of a particular obligation is transferred to the customer so that he can use them for the purpose for which they were purchased without restrictions under the contract.

- Revenue from the sale of any by-products resulting from industrial waste is treated as other revenue in the statement of profit or loss and other comprehensive income.

- If the company differentiates between the selling price of the product at the delivery site at its headquarters and the selling price of the same product at the customer's site delivery, the resulting difference will be treated as other income and the corresponding cost will be included in the other expenses.

**Discounts**

Revenue from sales of merchandise is recognized on the basis of the price specified in the contract or agreed with the customer after deducting specific discounts for each customer. The experience accumulated is used to estimate and provide the discounts, using the expected value method. Revenue is recognized only to the extent that it is highly probable that Significant reversal occurs, the contractual obligation of expected discounts is recognized in the amount payable to customers in connection with sales made up to the end of the reporting period.

**Financing element**

The Company does not expect the existence of any contracts that exceed the period between the delivery of the agreed products to be sold to the customer and payment by the customer one year, so the Company does not adjust any of the transaction prices in terms of the time value of money

**3.3 Property and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The values of property, plant and equipment are reviewed to assess whether they have suffered any impairment in their value and when there are any events that indicate that the carrying value may not be recoverable, the value of property, plant and equipment must be reduced to the recoverable amount and the impairment loss, if any, is recognized in profit or Loss for the period, unless the asset is disposed of at a revalued amount, then the impairment loss is treated as a decrease in the revaluation surplus to the amount by which the impairment loss does not exceed the amount retained in the revaluation surplus for that asset.

Expenditure incurred to replace any component of the asset is recognized as a separate item and is capitalized against writing off the carrying amounts of the replaced part. Any other expenses are capitalized only when the future economic benefits related to the asset increase. As for the costs of periodic repair and maintenance of property, equipment and factories, they are recognized in the statement of profit or loss and other comprehensive income. when incurred.

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The useful life of property, equipment and factories is reviewed at the end of each year. If the expected useful life differs from what was previously estimated, the residual carrying value is depreciated over the remaining useful life after reassessment, starting from the year in which the reassessment was made.

The Company uses the straight-line method to depreciate property, plant and equipment when they are ready for use over their estimated useful lives according to the following useful lives:

| <b>Assets</b>                               | <b>Consumption rates:</b> |
|---|---------------------------|
| Buildings                                   | 3%                        |
| Trucks                                      | 10%                       |
| Cars  | 25%                       |
| Furniture and fixtures                      | 20%                       |
| Machinery and equipment                     | 10%                       |
| Tools                                       | 10%                       |
| Computer                                    | 20%                       |
| Desalination plant and laboratory equipment | 20%                       |

Projects under construction are included under property, plant and equipment at cost and are stated at cost and includes the cost of machinery and equipment as well as direct expenses. Projects under construction that will be used by the Company are not depreciated until they are ready for use as they are transferred to property, plant and equipment.

### **3.4 Intangible Assets**

Intangible assets that include technology programs that have been acquired by the company and have a finite useful life are measured at cost less accumulated amortization and any accumulated impairment losses.

### **Subsequent Expenditure**

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other internally generated expenditures are recognized in the statement of profit or loss and other comprehensive income when incurred.

### **Amortization**

Amortization is calculated for the cost of intangible assets less residual value using the straight-line method over their estimated useful lives. It is recognized in the statement of profit or loss and its useful life is five years.

The residual values of intangible assets, their useful lives and indicators of impairment are reviewed at the end of each financial year and adjusted prospectively if necessary.

### **3.5 Impairment of non-financial assets**

At each statement of financial position date, the presence of indications of a decline in the value of non-financial assets is considered. If any indications exist, the recoverable amount of that asset is estimated to determine the extent of this loss. In cases where the recoverable amount of that asset alone cannot be estimated, the Company estimates the recoverable amount of the cash-generating unit to which that asset belongs.

In cases where the recoverable amount of the asset or cash-generating unit is estimated less than its carrying amount, then the cost of that asset or cash-generating unit is reduced to its recoverable value, and impairment losses in the value of the asset are recognized as expenses in the profit or loss for the financial period in which they occur .

If the impairment loss is subsequently reversed, then the cost of the asset or cash-generating unit is increased to its revised recoverable value, provided that its cost does not exceed the original cost that would have been determined had the impairment loss not been recognized in The value of that asset or cash-generating unit in previous years. The reversal of the impairment loss is recognized as income in profit or loss for the financial period in which it occurs.

**NOTES TO THE FINANCIAL STATEMENTS  
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(All amounts in Saudi Riyals unless otherwise stated)

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**3.6 Inventory**

Inventories are valued at cost or net realizable value, whichever is lower. As for the realizable value, it is the expected selling price in the normal activity of the company minus the expected selling costs. The cost of the finished production is determined on the basis of the weighted average method. The cost of finished and under-run production includes the cost of raw materials, labor and a specific percentage of indirect expenses. All other inventory types are valued on a weighted average basis. Provision is made for stagnant and slow-moving materials, if any.

**3.7 Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand and short-term deposits with banks with maturity of three months or less and which are subject to an insignificant risk of changes in their value. Restricted cash and cash equivalents that are not available for use are excluded from cash and cash equivalents for the purposes of the statement of cash flows.

**3.8 Employees' end-of-service benefits obligation**

Employees' end-of-service benefits obligation is a compensation obligation paid to employees after the end of their services, and according to the Saudi labor system, the company pays amounts to employees at the end of their services, which usually depends on the years of service, salary and the reason for termination of service. The obligations recognized in the statement of financial position in respect of end-of-service benefits are the present value of the defined benefit obligations at the end of the financial reporting period, and the defined benefit obligation is calculated annually by management by applying actuarial studies using the expected unit addition method.

The current service cost of the defined benefit plan recognized in profit or loss is included in employee benefits expense, unless it is included in the cost of the asset, reflecting the increase in the defined benefit obligation resulting from employee service in the current year and cases of change, curtailment and settlement of benefits.

Past service costs are recognized immediately in the statement of profit or loss. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using the rates of return on the bonds of companies with a high credit rating, valued in the currency in which the benefits are paid and with terms approximating the relevant benefit obligations. Application of government bond market rates. Actuarial gains or losses arising from prior adjustments and changes in actuarial assumptions are charged to profit or loss and other comprehensive income in the period in which they occur.

**3.9 lease**

**(1) Evaluation of lease contracts**

At the beginning of the contract, the company makes an assessment to determine whether the contract is a lease or contains a lease. A contract is a lease or contains a lease if the contract conveys the right to control the use of a specific asset for a period of time in return for consideration. To assess whether a contract conveys control of the use of a specific asset, the company uses the definition of a lease in IFRS 16.

**(2) The company as a lessee**

The Company recognizes right-of-use assets and lease liabilities at the commencement date of the lease. Right-of-use assets are initially measured at cost, which consists of the initial amount of the modified lease liability with any lease payments made on or before the commencement date, plus any initial direct costs incurred and the estimated costs of dismantling and removal of the subject asset or of restoring the subject asset or the location on which it is located less any lease incentives received.



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The right-of-use assets are subsequently depreciated substantially using the straight-line method from the start date of the lease until the end of the lease term, except if the lease transfers ownership of the underlying asset to the company at the end of the lease term or the cost of the right-of-use assets reflects that the company will exercise purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the contract asset, which is determined on the same basis as property and equipment. In addition, the right-of-use asset is periodically reduced from impairment losses, if any, and adjusted for certain lease liability remeasurements.

The lease liability is initially measured at the present value of the lease payments that have not been paid at the commencement date of the contract, discounted using the interest rate included in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate. Generally, the company uses the incremental borrowing rate as the discount rate.

The company determines its incremental borrowing rate by obtaining interest rates from various external sources of financing and making some adjustments to reflect the terms of the lease and the type of asset being leased.

The lease payments recognized when measuring the lease liability consist of the following:

- Fixed payments, including payments fixed in their content,
- Variable lease payments based on an index or a price, initially measured using the index or the price at the start date,
- Amounts expected to be paid under the residual value guarantee, and
- The exercise price under the purchase option that the company reasonably guarantees to exercise, the lease payments within the optional renewal period if the company reasonably warrants the exercise of the extension option, and penalties for early termination of the lease unless the company reasonably guarantees that it will not be terminated early.

**(3) Short-term lease contracts**

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

**3.10 Provisions**

Provisions are recognized when the company has obligations (legal or contractual) at the balance sheet date arising from past events and it is probable that the obligation to settle the obligation will result in an outflow of economic benefits and its value can be reliably measured. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

**3.11 Financial Instruments**

A financial instrument is any contracts that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity.

The company recognizes its financial assets and financial liabilities in the statement of financial position only when the company becomes a party to the contractual provisions of the instrument.

**Financial assets**

When the company acquires a financial asset, the financial asset is classified at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss on the basis of both (a) the business model for managing a Company of financial assets and (b) the contractual cash flow characteristics of the financial asset .

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**Initial Measurement of a Financial Asset**

A financial asset is measured at initial recognition at fair value plus transaction costs, except for financial assets at fair value through profit or loss, which are measured at fair value without adding transaction costs.

Amounts receivable from trade debtors are measured at their transaction rate (as defined in IFRS 15 “Revenue from contracts with customers” if the amounts receivable from trade debtors do not have a significant financing component in accordance with IFRS 15.

**Subsequent measurement of the financial asset**

After the initial recognition, the company shall subsequently measure the financial assets based on the classification of the financial assets as follows:

- At amortized cost using the effective interest method, if the Company's objective is to hold a Company of financial assets to collect contractual cash flows on specified dates, which are only payments of principal and interest on the principal amount outstanding.
- At fair value through other comprehensive income, if the company's objective is to maintain a company of financial assets to collect contractual cash flows and sell the financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are - only - payments of principal and interest on the principal amount outstanding .
- At fair value through other comprehensive income, if the company uses this measurement option provided in IFRS 9 “Financial Instruments” in relation to equity instruments. Subsequent changes in fair value as well as sale gains/(losses) are recognized in other comprehensive income. The resulting dividends are recognized in profit or loss.

**Derecognition of financial asset**

The Company derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset have expired, or
- Transferring the contractual rights to receive cash flows from the financial asset and transferring nearly all of the risks of ownership of the financial asset, or
- Retains the contractual rights to receive cash flows from the financial asset while assuming a contractual obligation to pay the cash flows to one or more recipients and transfer nearly all of the risks of ownership of the financial asset, or
- Transferring the contractual rights to receive cash flows from the financial asset without transferring or retaining nearly all of the risks of ownership of the financial asset if it has not retained control of the financial asset. or
- Maintaining the contractual rights to receive cash flows from the financial asset, while assuming a contractual obligation to pay the cash flows to one or more recipients without transferring and not retaining nearly all of the risks of ownership of the financial asset if you have not maintained control of the financial asset.

When a financial asset is derecognised in its entirety, the difference between the carrying amount at the date of derecognition and the consideration received (including any new asset acquired less any new liability incurred) is recognized in profit or loss.

**Impairment of financial assets**

The Company assesses the expected credit losses related to its financial assets on the basis of a prospective survey. The method of impairment applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the company applies the simplified approach allowed by IFRS 9, which requires that expected losses be recognized over the life of these receivables, starting from their initial recognition.

**NOTES TO THE FINANCIAL STATEMENTS  
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**Financial liabilities**

The Company classifies all financial liabilities as being subsequently measured at amortized cost.

**Derecognition of financial Liability**

The Company derecognises the financial liability (or part of a financial liability) from its statement of financial position when it is amortized; That is, when the obligation specified in the contract is paid, canceled or expired.

**The amortized cost of a financial asset or financial liability**

The amount by which a financial asset or a financial liability is measured on initial recognition minus the principal amount payments, plus or minus the cumulative amortization using the effective interest method for any difference between that initial amount and the amount on the due date.

**3.12 Provision for Zakat**

The company is subject to the instructions of the Zakat, Tax and Customs Authority in the Kingdom of Saudi Arabia. Zakat is deducted according to the accrual principle. The Zakat provision is calculated on the basis of the Zakat base, and any differences between the provision and the final assessment are recorded in the profit or loss in the same period in which these differences arise.

**3.13 Statutory reserve**

Under the Companies Law in the Kingdom of Saudi Arabia and the Company's Articles of Association, 10% of the net profit for the year is set aside for the statutory reserve account, and this set-up may be discontinued when the said reserve reaches 30% of the paid-up capital, bearing in mind that this reserve is not distributable.

**3.14 Loans**

Borrowings are initially recognized at fair value, net of transaction costs incurred, and subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the recoverable amount is recognized in profit or loss over the term of the loans using the effective interest rate method. Loans are canceled from the statement of financial position when the obligation specified in the contract is implemented, canceled or its term expires. Loans are classified as current liabilities when the remaining maturity is less than 12 months.

**3.15 Borrowing costs**

The financing cost directly attributable to the acquisition, construction or production of qualifying assets (which are assets that require a significant period of time, more than a year, until these assets become ready for their intended use) are added to the cost of these assets until these assets become ready for their intended use. No financing cost is capitalized during the downtime. All other finance costs are recognized in profit or loss when incurred.

**3.16 Earnings per share**

Basic earnings per share and diluted earnings per share (if any) are presented for common shares. Basic earnings per share is calculated by dividing the profit or loss of the company's common stockholders by the weighted average number of common shares outstanding during the period, adjusted by the number of common shares repurchased or issued during Period. Diluted earnings per share are calculated by adjusting the profit or loss of the company's ordinary shareholders and the weighted average number of shares outstanding during the period by the effects of all dilutive potential ordinary shares issued.

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**3.17 Dividends**

Cash or non-cash distributions to shareholders are recognized as a liability when the distribution is approved. According to the Companies Law in the Kingdom of Saudi Arabia, dividends are approved when approved by the shareholders. The amount distributed is deducted directly from equity and recognized as a liability. Non-cash distributions, if any, are measured at the fair value of the assets to be distributed and the re-measurement of the fair value is recognized directly in equity.

When distributing non-cash assets, any difference between the book value of the liabilities and the book value of the distributed assets is recorded in the statement of profit or loss.

**3.18 Foreign currency translation**

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Saudi Riyals at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of profit or loss.

**3.19 Fair value measurement**

Fair value is the value 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 under prevailing market conditions (such as current price) regardless of whether that price is directly observable or Estimated using another valuation method. The fair value measurement is based on the presumption that the sale of the asset or transfer of the liability will take place either:

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

The principal or most advantageous market must be accessible to the company.

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

The fair value measurement of a non-financial asset takes into account the ability of market parties to provide economic benefits by using the asset for the best benefit from it, or by selling it to another party in the market to use it for the best benefit from it. The company uses valuation methods that are appropriate to the circumstances and conditions and have sufficient data to measure fair value, maximize the use of relevant observable data, and minimize the use of unobservable data.

All assets and liabilities that are measured at fair value or whose fair value is disclosed in the financial statements are categorized according to the scope of the fair value hierarchy described below, based on the lowest level inputs that are significant to the fair value measurement as a whole:

The first level: the published (unadjusted) prices quoted in active markets for the assets or liabilities identical to those being measured.

The second level: the inputs that can be observed or monitored for the asset or liability, directly or indirectly, other than the declared prices listed within the first level.

Level Three: The unobservable inputs to the asset or liability.

**3.20 Segment reporting**

The business sector represents a group of assets and operations that jointly provide products or services that are subject to risks and returns different from those related to other business sectors, which are measured according to the reports that are used by the executive management.

The geographical sector is related to providing products or services in a specific economic environment subject to risks and returns that differ from those related to business sectors in economic environments.

**NOTES TO THE FINANCIAL STATEMENTS  
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**4. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS**

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the amounts of revenues, expenses, assets (assets) and obligations (liabilities) appearing in the financial statements and the disclosures attached to the financial statements, and disclosures of potential liabilities and potential assets. However, the uncertainty included in these assumptions and estimates may lead to significant adjustments to the carrying amount of assets or liabilities that may be affected in future periods.

Within the context of applying the Company's accounting policies, management has made judgments that have a material impact on the amounts recognized in the financial statements. In addition to the main assumptions that were taken when estimating the impact of future conditions on the numbers appearing in the financial statements and the disclosures related to them on the date of preparing the financial statements, which are associated with material risks that may cause significant adjustments to the carrying values of assets and liabilities during the next financial year. The company relied in its estimates and assumptions on the existing conditions and information available when preparing the financial statements. However, existing circumstances and assumptions about future developments may change according to changes in the market or circumstances arising outside of the Company's control. These changes are reflected in the assumptions when they occur.

**a- The estimated life of property, plant and equipment;**

The cost of property, plant and equipment is amortized over the expected service life which has been estimated based on the expected usage and obsolescence of the asset, the program of maintenance and repairs as well as technical obsolescence and recoverable value considerations

**b- Evaluation of employees' end-of-service benefits obligations**

The cost of employees' end of service benefits under the unfunded defined benefit plan is determined using an actuarial valuation. The actuarial valuation includes many assumptions that may differ from actual developments in the future. These assumptions include determining the discount rate, future salary increases, employee behavior, and employee turnover. Given the complexity of the valuation and its long-term nature, the unfunded defined benefit obligation is highly sensitive to changes in these assumptions. So all assumptions are reviewed one or more times per year when necessary.

**c- Determining the lease term with extension and termination options – As lessee**

The Company determines the term of the lease as non-cancellable for any covered periods with an option to extend the lease if the Company is reasonably certain it will be possible to exercise that option, or for any covered periods with an option to terminate the contract if the Company is reasonably certain it will not be possible to exercise that option Option. The Company exercises judgment in evaluating the reasonableness of ensuring that the option to extend or terminate the contract is exercised.

The company determines the lease term as non-cancellable for any periods covered by an option to extend the contract if the company is reasonably certain that it will be able to exercise that option, or for any periods covered by an option to terminate the contract if the company is reasonably certain that it will not be able to exercise this option. The company exercises judgment in assessing the reasonableness of ensuring that the option to extend or terminate the contract is exercised. For this purpose, the company considers all relevant factors that constitute an economic incentive to exercise the option to extend or terminate. After the commencement date of the lease, the company reassesses the term of the lease if there is a significant event or change in circumstances within its control that affects the company's ability to exercise or not to exercise the option to renew or terminate the lease.

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**d. Impairment of non-financial assets**

Impairment occurs when the amount of an asset or cash-generating unit exceeds its recoverable amount as fair value less costs of disposal or its value in use - whichever is higher. The fair value minus costs of disposal is based on available data from binding arm's length sales of similar assets or observable market prices minus incremental costs of disposal of the asset. The value in use calculation is based on the discounted cash flow model. Cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that could enhance the asset performance of the cash-generating unit being tested. The recoverable amount is sensitive to the discount rate used in the discounted cash flow model as well as to the expected future cash inflows and the growth rate used for the purposes of extrapolating the future.

**e. Provision for slow-moving inventory**

Management makes provision for obsolete and slow moving inventories. Estimates of the net realizable value of inventories are based on the most reliable evidence at the time the estimates were used. These estimates take into account fluctuations in prices or costs directly related to events occurring after the date of the statement of financial position to the extent that the circumstances of these events exist as at the end of the period.

**f. Measuring the fair value of financial instruments**

If the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using valuation techniques including the discounted cash flow model. Inputs to these models are obtained from observable markets when possible, but where this is not feasible, a degree of judgment must be used to determine fair values. Judgments include considerations for inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors may affect the disclosed fair value of financial instruments.

**g. Provision for expected credit losses (ECLs) of receivables**

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision matrix is initially based on the Company's historical observed defaulter's rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

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

**Naqi Water Company**  
(Saudi Joint Stock Company)

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**5. PROPERTY, PLANT AND EQUIPMENT**

|                                 | Land             | Buildings         | Trucks            | Cars              | Furniture<br>and fixtures | Machinery<br>and<br>equipment | Tools          | Computer       | Desalination plant<br>and laboratory<br>equipment | Total              |
|---------------------------------|------------------|-------------------|-------------------|-------------------|---------------------------|-------------------------------|----------------|----------------|---|--------------------|
| <b>Cost:</b>                    |                  |                   |                   |                   |                           |                               |                |                |   |                    |
| <b>As at 1 January 2021</b>     | 3,800,000        | 30,705,707        | -                 | 6,393,064         | 3,466,657                 | 100,806,124                   | 166,028        | 327,451        | 9,045,971   | 154,711,002        |
| Additions during the year       | 950,000          | 3,882,535         | 18,710,000        | 1,544,748         | 289,928                   | 19,980,631                    | 4,000          | 90,455         | 7,116,500   | 52,568,797         |
| Disposals                       | -                | -                 | -                 | (85,850)          | -                         | -                             | -              | -              | -   | (85,850)           |
| <b>As at 31 December 2021</b>   | <b>4,750,000</b> | <b>34,588,242</b> | <b>18,710,000</b> | <b>7,851,962</b>  | <b>3,756,585</b>          | <b>120,786,755</b>            | <b>170,028</b> | <b>417,906</b> | <b>16,162,471</b>                                 | <b>207,193,949</b> |
| Additions during the year       | -                | 1,243,923         | 1,540,000         | 3,009,269         | 355,460                   | 264,379                       | -              | 46,383         | -   | 6,459,414          |
| <b>As at 31 December 2022</b>   | <b>4,750,000</b> | <b>35,832,165</b> | <b>20,250,000</b> | <b>10,861,231</b> | <b>4,112,045</b>          | <b>121,051,134</b>            | <b>170,028</b> | <b>464,289</b> | <b>16,162,471</b>                                 | <b>213,653,363</b> |
| <b>Accumulated depreciation</b> |                  |                   |                   |                   |                           |                               |                |                |   |                    |
| <b>As at 1 January 2021</b>     | -                | 2,322,377         | -                 | 1,810,514         | 1,040,084                 | 18,833,111                    | 58,557         | 130,622        | 3,711,914   | 27,907,179         |
| Depreciation for the year       | -                | 964,687           | 500,687           | 1,676,401         | 740,827                   | 11,285,741                    | 16,820         | 63,893         | 2,787,502   | 18,036,558         |
| Disposals                       | -                | -                 | -                 | (26,983)          | -                         | -                             | -              | -              | -   | (26,983)           |
| <b>As at 31 December 2021</b>   | <b>-</b>         | <b>3,287,064</b>  | <b>500,687</b>    | <b>3,459,932</b>  | <b>1,780,911</b>          | <b>30,118,852</b>             | <b>75,377</b>  | <b>194,515</b> | <b>6,499,416</b>                                  | <b>45,916,754</b>  |
| Depreciation for the year       | -                | 1,063,343         | 2,031,021         | 1,969,721         | 683,077                   | 12,441,202                    | 17,157         | 75,090         | 3,068,778   | 21,349,389         |
| <b>As at 31 December 2022</b>   | <b>-</b>         | <b>4,350,407</b>  | <b>2,531,708</b>  | <b>5,429,653</b>  | <b>2,463,988</b>          | <b>42,560,054</b>             | <b>92,534</b>  | <b>269,605</b> | <b>9,568,194</b>                                  | <b>67,266,143</b>  |
| <b>Net book value</b>           |                  |                   |                   |                   |                           |                               |                |                |   |                    |
| <b>At 31 December 2022</b>      | <b>4,750,000</b> | <b>31,481,758</b> | <b>17,718,292</b> | <b>5,431,578</b>  | <b>1,648,057</b>          | <b>78,491,080</b>             | <b>77,494</b>  | <b>194,684</b> | <b>6,594,277</b>                                  | <b>146,387,220</b> |
| <b>At 31 December 2021</b>      | <b>4,750,000</b> | <b>31,301,178</b> | <b>18,209,313</b> | <b>4,392,030</b>  | <b>1,975,674</b>          | <b>90,667,903</b>             | <b>94,651</b>  | <b>223,391</b> | <b>9,663,055</b>                                  | <b>161,277,195</b> |

The property item includes truck, machinery & equipment mortgaged to a one of a commercials bank under a commercial financing agreement as a guarantee for the loan (note 14).

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**The depreciation for the year 31 December has been allocated as follows:**

|                                     | <u>Note</u> | <b>As At 31 December</b> |                          |
|-------------------------------------|-------------|--------------------------|--------------------------|
|                                     |             | <u>2022</u>              | <u>2021</u>              |
| Cost of sales                       | <b>20</b>   | <b>17,148,869</b>        | 15,687,656               |
| Selling and distribution expenses   | <b>21</b>   | <b>4,000,742</b>         | 2,177,088                |
| General and administrative expenses | <b>22</b>   | <b>199,778</b>           | 171,814                  |
|                                     |             | <b><u>21,349,389</u></b> | <b><u>18,036,558</u></b> |

-According to the management's opinion, no impairment was recorded in the book value of the company's PPE as of December 31,2022 (Dec,31, 2021: none).

**6. ADVANCE PAYMENTS FOR THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT**

Advance payments for the purchase of property, plant and equipment are as follows:

|                                      | <b>As At 31 December</b> |                         |
|--------------------------------------|--------------------------|-------------------------|
|                                      | <u>2022</u>              | <u>2021</u>             |
| Advance payments - production line * | <b>1,380,000</b>         | 1,380,000               |
| Advance Payments - Cars              | -                        | 602,250                 |
|                                      | <b><u>1,380,000</u></b>  | <b><u>1,982,250</u></b> |

\* The balance of the advance payments represents the amounts paid to the Middle East Machinery Factory Company Limited (a related party), refer to Note No. (16) for more details on transactions with related parties.

The capital commitments related to the advance payments above were disclosed in Note No. (29).



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**7. RIGHT OF USE ASSETS**

|  | As At 31 December |           |
|--|-------------------|-----------|
|  | 2022              | 2021      |
| <b><u>Cost:</u></b>                      |                   |           |
| Balance as the beginning for the year    | 1,418,869         | 1,418,869 |
| Additions                                | 2,366,332         | -         |
| Adjustments                              | 142,509           | -         |
|  | 3,927,710         | 1,418,869 |
| <b><u>Accumulated Depreciation :</u></b> |                   |           |
| Balance as the beginning for the year    | 485,376           | 201,600   |
| Depreciation for the year                | 531,137           | 283,776   |
|  | 1,016,513         | 485,376   |
| Net book value                           | 2,911,197         | 933,493   |

**Lease liability**

|                                | As At 31 December |           |
|--------------------------------|-------------------|-----------|
|                                | 2022              | 2021      |
| Beginning balance for the year | 913,553           | 1,156,369 |
| Additions                      | 2,366,332         | -         |
| Adjustments                    | 56,731            | 46,704    |
| Interest                       | 69,561            | 60,480    |
| Payment                        | (876,577)         | (350,000) |
|                                | 2,529,600         | 913,553   |
| Non current Lease liabilities  | 1,740,678         | 558,348   |
| Current lease liabilities      | 788,922           | 355,205   |
|                                | 2,529,600         | 913,553   |

The following is the dates of the lease liability obligations :

|                        | As At 31 December |           |
|------------------------|-------------------|-----------|
|                        | 2022              | 2021      |
| Within 1 year          | 878,577           | 350,000   |
| From 1 year to 5 years | 1,929,731         | 700,000   |
| More than 5 years      | -                 | -         |
|                        | 2,806,308         | 1,050,000 |

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**8. INTANGIBLE ASSETS**

|                                 | As At 31 December |                  |
|---------------------------------|-------------------|------------------|
|                                 | 2022              | 2021             |
| <b>Cost</b>                     |                   |                  |
| Balance as at 1 January         | 1,334,378         | 864,069          |
| Additions during the year       | 21,100            | 470,309          |
|                                 | <u>1,355,478</u>  | <u>1,334,378</u> |
| <b>Accumulated Amortization</b> |                   |                  |
| Balance as at 1 January         | (207,384)         | (103,742)        |
| Amortization during the year    | (131,861)         | (103,642)        |
|                                 | <u>(339,245)</u>  | <u>(207,384)</u> |
| <b>Net book value</b>           | <u>1,016,233</u>  | <u>1,126,994</u> |

**9. INVENTORIES**

|                | As At 31 December |                   |
|----------------|-------------------|-------------------|
|                | 2022              | 2021              |
| Raw materials  | 15,215,013        | 13,250,604        |
| Finished Goods | 1,399,992         | 4,888,266         |
| Spare parts    | 6,066,026         | 4,414,637         |
|                | <u>22,681,031</u> | <u>22,553,507</u> |

**10. TRADE AND OTHER RECEIVABLES**

|  | As At 31 December |                   |
|--|-------------------|-------------------|
|  | 2022              | 2021              |
| Trade receivables                          | 17,467,401        | 10,243,139        |
| Less: provision for expected credit losses | (1,174,728)       | (293,953)         |
|  | <u>16,292,673</u> | <u>9,949,186</u>  |
| Letters of guarantee                       | -                 | 5,294,902         |
| Underwriting project expenses              | -                 | 2,553,913         |
| Advance payments to suppliers              | 1,721,364         | 1,897,412         |
| Prepaid expenses                           | 2,301,781         | 1,406,475         |
| Other debit balances                       | 892,821           | 1,048,052         |
| Staff Loans                                | 608,097           | 717,875           |
| Checks under collection                    | 5,653,198         | 13,797            |
| petty cash                                 | 279,516           | 323,643           |
|  | <u>27,749,450</u> | <u>23,205,255</u> |
| Provision for other debit balances         | (1,144,996)       | (1,048,051)       |
|  | <u>26,604,454</u> | <u>22,157,204</u> |

**The movement of provision for expected credit losses during the year:**

|                           | As At 31 December |                |
|---------------------------|-------------------|----------------|
|                           | 2022              | 2021           |
| Balance as at 1 January   | 293,953           | 281,945        |
| Additions                 | 880,775           | 12,008         |
| Balance as at 31 December | <u>1,174,728</u>  | <u>293,953</u> |

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**The movement of provision for other debit balances during the year is as follows:**

|                               | As At 31 December |                  |
|-------------------------------|-------------------|------------------|
|                               | 2022              | 2021             |
| Balance as at 1 January       | 1,048,051         | 1,561,051        |
| Additions                     | 252,175           | -                |
| Provisions no longer required | (155,230)         | (513,000)        |
| Balance as at 31 December     | <u>1,144,996</u>  | <u>1,048,051</u> |

**The Aging of trade receivables:**

|                    | As At 31 December |                   |
|--------------------|-------------------|-------------------|
|                    | 2022              | 2021              |
| Not due            | 11,192,908        | 6,493,825         |
| 30 – 60 days       | 4,695,884         | 2,359,073         |
| 61- 90 days        | 221,201           | 385,216           |
| 91 – 360 days      | 631,118           | 469,803           |
| More than 360 days | 726,290           | 535,222           |
| Total              | <u>17,467,401</u> | <u>10,243,139</u> |

**11. CASH AND CASH EQUIVALENTS**

|               | As At 31 December |                   |
|---------------|-------------------|-------------------|
|               | 2022              | 2021              |
| Deposits*     | 60,000,000        | -                 |
| Cash at banks | 27,482,312        | 37,639,457        |
| Cash on hand  | 574,958           | 221,541           |
|               | <u>88,057,270</u> | <u>37,860,998</u> |

\* The maturity period of deposits is less than three months from the date of acquisition.

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**12. SHARE CAPITAL**

The company's capital has been set at 20,000,000 share, the value of each share is SAR 10 (December 31, 2021: 20,000,000 share, the value of each share is SAR 10).

The following are the major shareholders of the company:

| <u>Shareholder's name</u>                                      | <u>Current ownership Percentage</u> |     |
|--|-------------------------------------|-----|
| Amin bin Abdullah bin Ali Al Mallah                            | 35%                                 | 50% |
| Seqa United Group (Previously Al Sadd Modern Advanced Company) | 35%                                 | 50% |

-In addition, on 13 December 2021, the Shareholders' Assembly approved the capital increase from the amount of SAR 170,000,000 to SAR 200,000,000 divided into 20,000,000 ordinary shares with a nominal value of SAR 10 per share. By capitalizing an amount of SAR 30,000,000 from the company's retained earnings. The legal procedures related to that have been completed during the year 2021.

-On 11t December 2021, the Board of Directors approved the company's initial public offering plan, offering 30% of the company's shares for public subscription. By submitting their applications and registering their securities with the Capital Market Authority and subsequently listing it on the financial market ('Tadawul').

- On 25 May 2022, the Capital Market Authority announced its approval of offering 6,000,000 shares for public subscription, representing 30% of the company's shares.

- On 15 August 2022, the Saudi Arabian Capital Market Authority(CMA) approved the company's listing on the Saudi Arabian financial market ("Tadawul')."

- The regulatory procedures for amending the company's articles of association to become a listed joint-stock company were completed on 26 October 2022, as well as the commercial registration number 1128018184.

**13. STATUTORY RESERVE**

In accordance with the Company's article of association 10% of the annual net profit is required to be transferred to a statutory reserve until its reserve equals 30% of the capital. This statutory reserve is not available for distribution to shareholders currently

**14. LONG TERM LOANS**

|                     | <b>As At 31 December</b> |                          |
|---------------------|--------------------------|--------------------------|
|                     | <b>2022</b>              | <b>2021</b>              |
| Non-Current portion | <u>8,241,864</u>         | <u>12,095,334</u>        |
| Current portion     | <u>4,755,671</u>         | <u>4,755,671</u>         |
|                     | <u><b>12,997,535</b></u> | <u><b>16,851,005</b></u> |

**The movement of the loan during the year is as follows:**

|                           | <b>As At 31 December</b> |                          |
|---------------------------|--------------------------|--------------------------|
|                           | <b>2022</b>              | <b>2021</b>              |
| Balance as at 1 January   | <u>16,851,005</u>        | <u>20,500,000</u>        |
| Payment                   | <u>(3,853,470)</u>       | <u>(3,648,995)</u>       |
| Balance as at 31 December | <u><b>12,997,535</b></u> | <u><b>16,851,005</b></u> |

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**Aggregate maturities of loans are as follows:**

|                        | <b>As At 31 December</b> |                          |
|------------------------|--------------------------|--------------------------|
|                        | <b>2022</b>              | <b>2021</b>              |
| Within 1 year          | <u>4,755,671</u>         | 4,755,671                |
| From 1 year to 5 years | <u>9,511,341</u>         | 14,267,012               |
| More than 5 years      | <u>-</u>                 | -                        |
|                        | <b><u>14,267,012</u></b> | <b><u>19,022,683</u></b> |

During the year 2020, the company entered into a commercial financing agreement with a bank in the amount of SAR 20,500,000. The company used this loan to finance the acquisition of cars (note 5). The loan is subject to the interest rate of SIBOR plus 4% annually. The loan is repaid in 20 quarterly installments of equal value for a period of 5 years, payment of the first installment starts on 7 January 2021, and the last installment on 7 October 2025. The value of the cars amounting to SAR 20,250,000 was mortgaged as a security for financing, in addition to bonds to the order of the lending bank, amounting to SAR 24,600,000, which were signed by the shareholders in the company. The loan does not include financial covenants.

**15. EMPLOYEES' END OF SERVICE BENEFITS**

|   | <b>As At 31 December</b> |                         |
|---|--------------------------|-------------------------|
|   | <b>2022</b>              | <b>2021</b>             |
| Balance as at 1 January   | <u>2,283,822</u>         | 1,090,511               |
| Current service cost  | <u>1,239,035</u>         | 1,598,181               |
| Finance cost  | <u>59,053</u>            | 26,585                  |
| paid  | <u>(193,315)</u>         | (36,265)                |
| Actuarial losses (gains) from remeasurement of employee end of-service benefits | <u>355,511</u>           | (395,190)               |
| Balance as at 31 December   | <b><u>3,744,106</u></b>  | <b><u>2,283,822</u></b> |

**The following are the significant actuarial assumptions:**

|                    |       |       |
|--------------------|-------|-------|
| Discount rate      | 4.35% | 2.70% |
| Salary growth rate | 4%    | 2%    |

**Sensitivity Analysis**

The following is a quantitative sensitivity analysis of the significant assumptions regarding the employee's end-of-service benefits obligation as of December 31, 2022 and 2021:

|                                  | <b><u>As at 31 December 2022</u></b> |                        | <b><u>As at 31 December 2021</u></b> |                        |
|----------------------------------|--------------------------------------|------------------------|--------------------------------------|------------------------|
|                                  | <b><u>Liability amount</u></b>       | <b><u>Change %</u></b> | <b><u>Liability amount</u></b>       | <b><u>Change %</u></b> |
| <b>Discount rate base</b>        |                                      |                        |                                      |                        |
| + 1%                             | 3,214,725                            | (529,381)              | 2,130,188                            | (153,634)              |
| - 1%                             | 3,769,509                            | 25,403                 | 2,448,590                            | 164,768                |
| <b>Salary increase rate base</b> |                                      |                        |                                      |                        |
| + 1%                             | 3,769,426                            | 25,320                 | 2,448,536                            | 164,714                |
| - 1%                             | 3,214,686                            | (529,420)              | 2,130,162                            | (153,660)              |

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**Expected future cash payments:**

The table below shows the expected future cash payments from the end-of-service plan:

|                | <b>As at 31 December<br/>2022</b> |
|----------------|-----------------------------------|
| 2022           | -                                 |
| 2023           | 185,475                           |
| 2024           | 231,213                           |
| 2025           | 289,910                           |
| 2026           | 367,279                           |
| 2027 and after | 3,931,669                         |
|                | <b>5,005,546</b>                  |

**16. TRANSACTIONS WITH RELATED PARTIES**

| Name of related parties  | Nature of relationship | Nature of transaction                        | 31 December<br>2022 | 31 December<br>2021 |
|--|------------------------|--|---------------------|---------------------|
| Seqa United Group<br>(Previously Al Sadd Modern<br>Advanced Company) | shareholder            | Purchase of raw material                     | <b>88,542,171</b>   | 82,743,637          |
|  |                        | Expense notice                               | <b>(1,881,208)</b>  | 451,483             |
|  |                        | Payments                                     | <b>(88,954,324)</b> | (77,434,109)        |
|  |                        | Discounts & returns                          | <b>(5,445,798)</b>  | -                   |
|  |                        | Listing and initial public offering expenses | <b>3,892,470</b>    | -                   |
| Amin bin Abdullah bin Ali Al<br>Mallah                               | shareholder            | Listing and initial public offering expenses | <b>3,892,470</b>    | -                   |
| Zulal Water Factory Company  | Affiliate              | Purchase of raw material                     | -                   | 33,617,495          |
|  |                        | Purchase of machinery & equipment            | -                   | (120,000)           |
|  |                        | Spare Parts Purchases                        | -                   | 1,622,543           |
|  |                        | Payment and discount notices                 | <b>(209,647)</b>    | (36,782,000)        |
| Middle East Machinery<br>Factory Co. Ltd.                            | Affiliate              | Purchase of property and machinery           | <b>7,076,653</b>    | 25,454,460          |
|  |                        | Payments                                     | <b>(7,273,396)</b>  | 1,976,399           |
| Benefits of Key<br>Management  |                        | Short term benefits                          | <b>1,586,027</b>    | 1,236,283           |
|  |                        | Long term benefits                           | <b>66,504</b>       | 45,667              |

No in-kind benefits were paid to members of the Board of Directors and committees for the fiscal years ending on 31 December 2022 and 2021.

Transactions with related parties include value added tax for the year ending on December 31, 2022, amounting to SAR 12,523,447 (2021 amount: SAR 19,394,326)

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The related party balances as at 31 December were as follows:

|  | Due from related parties |                | Due to related parties |                  |
|--|--------------------------|----------------|------------------------|------------------|
|  | 2022                     | 2021           | 2022                   | 2021             |
| Seqa United Group (Previously Al Sadd Modern Advanced Company) | 1,978,147                | -              | -                      | 5,761,011        |
| Zulal Water Factory Company                                    | 7,735                    | 217,381        | -                      | -                |
| Amin bin Abdullah bin Ali Al Mallah                            | -                        | -              | -                      | 234,190          |
| Middle East Machinery Factory Co. Ltd.                         | -                        | -              | 707,876                | 904,619          |
|  | <b>1,985,882</b>         | <b>217,381</b> | <b>707,876</b>         | <b>6,899,820</b> |

**17. TRADE AND OTHER PAYABLES**

|                          | As At 31 December |                   |
|--------------------------|-------------------|-------------------|
|                          | 2022              | 2021              |
| Trade payables           | 14,686,444        | 7,573,802         |
| Accrued expenses         | 2,929,148         | 2,447,193         |
| Value added tax          | 799,082           | 1,064,188         |
| Eligible financing costs | -                 | 229,572           |
|                          | <b>18,416,674</b> | <b>11,314,755</b> |

**18. ZAKAT PROVISION**

**18.1 Zakat**

The main components of the company's zakat base are as follows:

|                                     | As At 31 December |                  |
|-------------------------------------|-------------------|------------------|
|                                     | 2022              | 2021             |
| Total items subject to zakat        | 281,526,105       | 240,747,644      |
| Total deduction from the zakat base | (157,760,676)     | (165,559,268)    |
| Zakat base                          | 123,765,429       | 75,188,376       |
| adjusted net income                 | 54,286,214        | 76,484,876       |
| Zakat at 2.5%                       | <b>3,148,110</b>  | <b>1,912,122</b> |

Zakat is calculated on the basis of the adjusted net income or the zakat base, whichever is higher, according to the regulations of the Authority for Zakat, Tax and Customs in the Kingdom of Saudi Arabia.

The movement in the provision as at 31 December is as follows:

|                                      | As At 31 December |                    |
|--------------------------------------|-------------------|--------------------|
|                                      | 2022              | 2021               |
| Balance at the beginning of the year | 1,912,122         | 3,432,244          |
| Formed                               | 3,148,110         | 1,912,122          |
| Paid                                 | (1,912,122)       | (2,751,525)        |
| No longer required                   | -                 | (680,719)          |
| Balance at the end of the year       | <b>3,148,110</b>  | <b>(1,912,122)</b> |

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The company submitted its zakat returns for all years until 31 December 2021, and paid zakat obligations, and obtained a valid zakat certificate until 30 April 2023 and no final assessments or claims have been made for any of the years since the 2017 up to date.

**18.2 Tax position**

The company received tax differences resulting from the examination of the Zakat, Tax and Customs Authority (“ZATCA”) with amount to SAR 5,281,971 for the value added tax returns for the months from September 2020 to December 2020 (of which SAR 3,504,899 are the original tax due, and an amount of SAR 1,777,072 represents the value of fines and penalties).

The company submitted objections to these differences, and these objections were not accepted by the Zakat, Tax and Customs Authority “the Authority”, and accordingly a letter of guarantee was submitted in the amount of SAR 5,294,902 in favor of the Authority for those differences drawn on Riyadh Bank

The company submitted an objection for the General Secretariat of Zakat, Tax and Customs Committees "the Secretariat". During the month of October 2022, and for the purpose of reducing the risks of failure of the objection submitted by the company to the Secretariat, the company paid the principal amount of the due tax amounting to 3,504,899 riyals in exchange for canceling the full value of fines and penalties imposed by the Authority, according to what was included in the initiative to cancel fines and exemption from Financial penalty.

On 20 December 2022, the letter of guarantee was settled and the amount of SAR 5,294,902 was returned to the company’s account, and the amount of the letter of guarantee was fully recovered, and the company asked the old shareholders to pay the total value of amounts paid by the company, amounting to SAR 3,504,899. The amounts paid to the Zakat, Tax and Customs Authority was collected from the old shareholders of Company before the company was listed on the stock market, as it relates to tax differences prior to the public offering process, and this process did not result in any financial impact on the profit or loss statement amounts of the company.

**19. SALES**

|                 | <b>For the year ended 31 December</b> |                    |
|-----------------|---------------------------------------|--------------------|
|                 | <b>2022</b>                           | <b>2021</b>        |
| Wholesale sales | <b>133,514,659</b>                    | 141,739,412        |
| Retail sales    | <b>141,134,886</b>                    | 136,083,653        |
|                 | <b>274,649,545</b>                    | <b>277,823,065</b> |

**20. COST OF SALES**

|  | <b>For the year ended 31 December</b> |                    |
|--|---------------------------------------|--------------------|
|  | <b>2022</b>                           | <b>2021</b>        |
| Material consumed                                      | <b>137,914,572</b>                    | 124,718,092        |
| Depreciation of property, plant and equipment (Note 5) | <b>17,148,869</b>                     | 15,687,656         |
| Salaries, wages and other benefits                     | <b>14,714,716</b>                     | 10,144,650         |
| Spare parts consumed                                   | <b>5,651,580</b>                      | 4,451,901          |
| Operating expenses                                     | <b>5,041,770</b>                      | 4,474,973          |
| Electricity and water                                  | <b>3,837,499</b>                      | 2,774,903          |
| Maintenance and insurance                              | <b>3,021,747</b>                      | 2,626,393          |
|  | <b>187,330,753</b>                    | <b>164,868,568</b> |



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**21. SELLING AND DISTRIBUTION EXPENSES**

|  | <b>For the year ended 31 December</b> |                   |
|--|---------------------------------------|-------------------|
|  | <b>2022</b>                           | <b>2021</b>       |
| Salaries, wages and other benefits                     | 13,530,472                            | 12,846,741        |
| Sale commissions                                       | 1,848,347                             | 2,425,839         |
| Depreciation of property, plant and equipment (Note 5) | 4,000,742                             | 2,177,088         |
| Depreciation of the right of use Asset (Note 7)        | 531,137                               | 283,776           |
| Transportation   | 2,293                                 | 2,087,359         |
| Advertising expenses                                   | 1,316,764                             | 1,917,123         |
| Fuels  | 1,565,056                             | 1,832,299         |
| Maintenance and repair                                 | 89,325                                | 276,734           |
| Other  | 1,779,740                             | 373,835           |
|  | <b>24,663,876</b>                     | <b>24,220,794</b> |

**22. GENERAL AND ADMINISTRATIVE EXPENSES**

|  | <b>For the year ended 31 December</b> |                   |
|--|---------------------------------------|-------------------|
|  | <b>2022</b>                           | <b>2021</b>       |
| Salaries, wages and other benefits                     | 9,075,440                             | 8,077,014         |
| Professional and consulting fees                       | 662,288                               | 788,288           |
| Stationery and prints                                  | 309,552                               | 364,932           |
| Government fees and subscriptions                      | 275,884                               | 253,725           |
| Depreciation of property, plant and equipment (note 5) | 199,778                               | 171,814           |
| Maintenance and repair                                 | 96,082                                | 169,107           |
| Banking expenses                                       | 20,727                                | 130,970           |
| Hospitality and hygiene                                | 66,011                                | 113,775           |
| Amortization of intangible assets (note 8)             | 131,861                               | 103,642           |
| Donations  | -                                     | 50,000            |
| Post, phone and internet                               | 224,497                               | 43,182            |
| Other  | 174,538                               | 199,810           |
|  | <b>11,236,658</b>                     | <b>10,466,259</b> |

**23. OTHER INCOMES (EXPENSES), NET**

|   | <b>For the year ended 31 December</b> |                  |
|---|---------------------------------------|------------------|
|   | <b>2022</b>                           | <b>2021</b>      |
| Other logistics income                            | 2,718,660                             | -                |
| Scrap income                                      | 979,907                               | 622,130          |
| Provison expense – Other debit balance            | (252,175)                             | -                |
| Provision no longer required- Other debit balance | 155,230                               | 513,000          |
| Interest from deposits                            | 214,417                               | -                |
| Otheres   | 618,008                               | 298,407          |
|   | <b>4,434,047</b>                      | <b>1,433,537</b> |

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**24. LISTING AND INITIAL PUBLIC OFFERING EXPENSES**

On 25 May 2022, the company obtained the approval of the Capital Market Authority on Naqi Water Company's request to register and offer its shares for public subscription, which includes approval of the company's request to register its shares and offer (6,000,000) shares for public subscription, representing (30%) of the company's total shares. The value of the costs related to the project of registering the company's shares and offering part of it for public subscription amount with SAR 8,262,584. The old shareholders pledged during the offering process to bear the value of these costs and pay them to the company in the event of success of the offering and subscription project. On 15 August 2022, the process of listing the company's shares in the Capital Market was completed, and all the shares offered were subscribed. The company covered the amounts of the subscription costs from the old shareholders that existed before the offering and subscription. Mr. Amin Al-Mallah and seqa united group( previously Al Sadd Modern Advanced Company ) afford and bearing the full value of the listing and public offering costs.

The costs have been classified and treated according to the nature of the transaction to which each of these costs is related, according to a clarification from the Accounting Standards Board on how to account for the costs of listing in the capital market when the listing with a sale of part of the founders' share to the public on 23 March 2023. These costs were classified into costs related to selling and initial public offering, and were processed by constantly charging them to the old shareholders outside the company's accounts. The costs related to the listing transaction have been included in the profit and loss statement. Costs related to the listing transaction that are difficult to attribute directly to both the sale process and the listing process have been allocated using the gudianc of paragraph 38 of International Accounting Standard No. 32 "Financial Instruments: Presentations" between the company and the old shareholders pro-rata to the basis of the number of shares sold to the shares held, and the company's share was charged to the profit and loss statement.

| <u>Expenses</u>  | <u>Base of allocation</u>                          | <u>Amounts recongnized<br/>in Profit or loss<br/>statement</u> |
|--|--|--|
| Expenses related to initial public offering              | Allocated to previous owners                       | -  |
| Expenses related to listing                              | Allocated in profit or loss<br>statement           | 244,852  |
| Expenses related to initial public offering<br>& listing | Allocated with 70% in Profit or<br>loss statement. | 2,951,034  |
|  |  | <u><u>3,195,886</u></u>  |

The financial impact of the amounts covered by the old shareholders for the costs of listing and initial public offering was charged to the equity in accordance with the requirements of International Accounting Standard No. 32.

**25. EARNINGS PER SHARE**

|                                   | As At 31 December |             |
|-----------------------------------|-------------------|-------------|
|                                   | <u>2022</u>       | 2021        |
| Net profit for the year           | <u>48,707,066</u> | 77,275,987  |
| Weighted average number of shares | <u>20,000,000</u> | 20,000,000  |
| Basic earnings per share          | <u>2,44</u>       | <u>3,86</u> |

Diluted earnings per share is the same as basic earnings per share as the company has no diluted instruments.

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**26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**26-1 Liquidity Risk**

Liquidity risk is the difficulty that an entity encounters in raising funds to meet commitments related to financial instruments. Below are the contractual maturities of financial obligations at the end of the financial year. Amounts are shown in total and not discounted.

| <b><u>As At 31 December 2022</u></b> | <b>less than one<br/>year</b> | <b>From 1 to 5<br/>years</b> | <b>More than five<br/>years</b> | <b>Total</b>      |
|--------------------------------------|-------------------------------|------------------------------|---------------------------------|-------------------|
| Loan                                 | 4,755,671                     | 9,511,341                    | -                               | 14,267,012        |
| Due to related parties               | 707,876                       | -                            | -                               | 707,876           |
| Trade and other payables             | 18,414,674                    | -                            | -                               | 18,414,674        |
| Lease liability                      | 876,577                       | 1,929,731                    | -                               | 2,806,308         |
|                                      | <b>24,754,798</b>             | <b>11,441,072</b>            | -                               | <b>36,195,870</b> |

| <b><u>As at 31 December, 2021</u></b> | <b>less than one<br/>year</b> | <b>From 1 to 5<br/>years</b> | <b>More than five<br/>years</b> | <b>Total</b>      |
|---------------------------------------|-------------------------------|------------------------------|---------------------------------|-------------------|
| Loan                                  | 4,755,671                     | 14,267,012                   | -                               | 19,022,683        |
| Due to related parties                | 6,899,820                     | -                            | -                               | 6,899,820         |
| Trade and other payables              | 11,314,755                    | -                            | -                               | 11,314,755        |
| Lease liability                       | 350,000                       | 700,000                      | -                               | 1,050,000         |
|                                       | <b>23,320,246</b>             | <b>14,967,012</b>            | -                               | <b>38,287,258</b> |

The company manages liquidity risk by maintaining adequate reserves, bank facilities and loans, and by continuously monitoring future cash flows, as well as by matching the maturity dates of cash assets and liabilities.

**26-2 Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk includes three types of risks: currency rate risk, foreign currency risk, and other price risks such as stock price risk and commodity price risk. Financial instruments that are affected by market risk include loans, term deposits and trade payables.

**26.2.1 Commission rate risk**

Commission risk arises from the potential fluctuations in interest rates that would affect future profit or the fair values of financial instruments. The company is subject to commission risks on its commitments on which it pays commissions represented in loan balances. The company seeks to reduce the interest rate risks by monitoring potential fluctuations in interest rates and hedging these risks when needed.

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**26.2.2 Foreign exchange risk**

The company's exposure to foreign currency risk is mainly limited to transactions in UAE dirhams, and the exchange rate for both the UAE dirham and the Saudi riyal is fixed against the US dollar. Thus, the risks are limited from changes in the foreign exchange rate. The following are the quantitative data related to the foreign exchange position:

|                               | UAE dirham       | The equivalent in SAR |
|-------------------------------|------------------|-----------------------|
| <b>As at 31 December 2022</b> |                  |                       |
| Trade payables                | <b>1,826,474</b> | <b>1,866,541</b>      |
| <b>As at 31 December 2021</b> |                  |                       |
| Trade payables                | 442,808          | 452,214               |

**26.3 Credit Risk**

Credit risk is the risk that the company will suffer financial loss if the customer or counterparty to a financial instrument fails to meet its contractual obligations and arises mainly from receivables, bank balances and other debit balance. Cash and cash equivalents are placed with banks with high credit ratings, and the company's management believes that there is no concentration of credit risk.

The Company is exposed to credit risk on its bank balances and trade receivables as follows:

|                     | As At 31 December  |            |
|---------------------|--------------------|------------|
|                     | 2022               | 2021       |
| Deposits            | <b>60,000,000</b>  | -          |
| Cash at bank        | <b>27,482,312</b>  | 37,639,457 |
| Trade receivables   | <b>17,467,401</b>  | 10,243,139 |
| Other debit balance | <b>6,288,636</b>   | 8,904,131  |
|                     | <b>111,238,349</b> | 56,786,727 |

The carrying amount of the financial assets represents the maximum exposure to credit risk.

The Company manages the credit risk related to the outstanding amounts of trade receivables by monitoring in accordance with the established policies and procedures. The company limits the credit risk related to trade receivables by setting credit limits for each customer and monitoring the outstanding trade receivables on an ongoing basis

**26.4 Capital Management**

The Company's objective when managing capital is to preserve the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and maintaining a strong capital base to support the sustainable development of its business.

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The ratio of the company adjusted net liabilities to the equity is as follows:

|   | As At 31 December          |                    |
|---|----------------------------|--------------------|
|   | <u>2022</u>                | <u>2021</u>        |
| Total liabilities                             | <b>41,541,901</b>          | 40,175,077         |
| Less: cash at banks                           | <b>(88,057,270)</b>        | (37,860,998)       |
| Net Liabilities                               | <b><u>(46,515,369)</u></b> | <u>2,314,079</u>   |
| <br>  |                            |                    |
| Total Equity                                  | <b><u>249,655,112</u></b>  | <u>207,933,945</u> |
| Net liabilities to Total shareholder's equity | <b><u>(0, 19)</u></b>      | <u>0,01</u>        |

The company manages its capital structure and makes adjustments to it in light of changes in economic conditions. There have been no changes to the objectives, policies and procedures for capital management during the years ending 31 December 2022 and 2021.

### 26.5 Fair value

Includes instruments of financial assets and financial liabilities.

Financial assets include cash and cash equivalents, trade and other receivables and due from related parties. Financial liabilities include long term loans, trade and other payables, due to related parties and lease commitment. The fair value of the financial assets and liabilities is stated with the amount in which the financial instrument can be exchanged in a current transaction between willing parties and with not in a mandatory transaction or sale through liquidation.

The fair value of financial instruments is not materially different from their book value at the date of preparing the financial statements

### 27 .SEGMENT REPORTING

The company has one operational sector represented in the production and bottling of pure filtered water. The company's operating assets are located in its factory located in the city of Qassim, kingdom of Saudi Arabia. The main sectors of the company are presented according to the geographical sectors, The company operates in the Kingdom of Saudi Arabia and exports pure filtered bottled water to some Arab countries according to the data shown below:

| <b>Sales for the year ended</b> | <u>Local sales</u> | <u>Export sales</u> | <u>Total</u>       |
|---------------------------------|--------------------|---------------------|--------------------|
| 31 December 2022                | 270,010,264        | 4,639,281           | <b>274,649,545</b> |
| 31 December 2021                | 275,384,431        | 2,438,634           | <b>277,823,065</b> |

| <b>Account Receivables As At</b> | <u>Local customers</u> | <u>Export customers</u> | <u>Total</u> |
|----------------------------------|------------------------|-------------------------|--------------|
| 31 December 2022                 | 16,657,100             | 810,301                 | 17,467,401   |
| 31 December 2021                 | 10,130,625             | 112,514                 | 10,243,139   |

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**Sales by region:**

| <b>Region</b> | <b>For the year ended 31 December</b> |             |
|---------------|---------------------------------------|-------------|
|               | <b>2022</b>                           | <b>2021</b> |
| South area    | <b>8,043,546</b>                      | 10,303,766  |
| East area     | <b>20,485,444</b>                     | 25,530,780  |
| North area    | <b>27,277,719</b>                     | 30,760,771  |
| West area     | <b>28,309,632</b>                     | 31,580,390  |
| Central area  | <b>185,893,923</b>                    | 177,208,724 |
| Export sales  | <b>4,639,281</b>                      | 2,438,634   |
|               | <b>274,649,545</b>                    | 277,823,065 |

**28. DIVIDENDS**

-On 14 June 2022, the Ordinary General Assembly, based on the recommendation of the Board of Directors, approved cash dividends for the first quarter of the year 2022, amounting to SAR 10,000,000.

-On 12 December 2021, the Ordinary General Assembly, based on the recommendation of the Board of Directors, approved cash dividends for the third and fourth quarters of the year 2021, amounting to SAR 17,000,000.

-On 26 September 2021, the Ordinary General Assembly, based on the recommendation of the Board of Directors, approved cash dividends for the second quarter of the year 2021, amounting to SAR 8,500,000.

-On 4 June 2021, the Ordinary General Assembly, based on the recommendation of the Board of Directors, approved cash dividends for the first quarter of the year 2021, amounting to SAR 8,500,000.

**29. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS**

-The company has no contingent liabilities as of 31 December 2022 and 2021.

- The company has capital commitments related to contracts for the construction of property, machinery and equipment that the company's management expects to complete during 2023

The following are the details of the capital commitments:

|  | <b>As At 31 December</b> |             |
|--|--------------------------|-------------|
|  | <b>2022</b>              | <b>2021</b> |
| Total capital contracts  | <b>13,800,000</b>        | 15,571,000  |
| Advance payments for the purchase of property, plant and equipment/projects under Construction | <b>(1,380,000)</b>       | (1,982,250) |
| Capital commitments  | <b>12,420,000</b>        | 13,588,750  |

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**30. SUBSEQUENT EVENTS**

-The Company's Ordinary General Assembly, during its meeting on 8 January 2023 approved the Board of Directors' recommendation to distribute cash dividends in the amount of SAR 20,000,000, which represents 10% of the company's capital, to shareholders for the second and third interim periods of 2022, at an amount of SAR 1 per share. The process of distributing and disbursing the profits took place on 18 January 2023 to the shareholders registered in the company's register, in accordance with the Ordinary General Assembly's resolution.

- On 23 March 2023, the Saudi Organization for Chartered and Professional Accountants issued a clarification on how to address and the treatment for the costs of listing in the Capital Market when the listing is accompanied with selling part of the founders' shares to the public.

**31. COMPARTIVE FIGURES**

Certain figures for the previous year were re-classified to conform with the presentation for the current year as follow:

|   | <b><u>Before<br/>reclassification</u></b> | <b><u>Reclassification</u></b> | <b><u>After reclassification</u></b> |
|---|---|--------------------------------|--------------------------------------|
| <b><u>Statement of Profit or loss</u></b> |   |                                |                                      |
| Selling and marketing expense             | 23,937,018                                | 283,776                        | 24,220,794                           |
| General and administrative expense        | 10,750,035                                | (283,776)                      | 10,466,259                           |

**32. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were approved by the Board of Directors on 8 Ramadan 1444(H) corresponding to 30 March 2023.