

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Financial Statements
For the Year Ended December 31, 2020
And Independent Auditor's Report



Mr. Sameh Fathi Hassan
Group CFO

Eng. Thamer M. Al-Muahid
Group CEO

Eng. Fahad Saleh Al-Jarbou
Chairman BOD

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

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For the Year Ended December 31, 2020

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Independent Auditor's Report**To the Shareholders of Saudi Chemical Holding Company**

(A Saudi Joint Stock Company)

Riyadh – Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements***Opinion***

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated 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 issued by Saudi Organization for Certified Public Accountants ("SOCPA").

Basis of Opinion

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

Key Audit Matters

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



Independent Auditor's Report (continued)

To the Shareholders of Saudi Chemical Holding Company
 (A Saudi Joint Stock Company)
 Riyadh – Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (Continued)

Key audit matter	How the matter was addressed during our audit
<p>Impairment of goodwill As at December 31, 2020, the carrying amount of goodwill arising from the acquisition of Saudi International Trading Company (SITCO Pharma) was SR 469.8 million (December 31, 2019: SR 469.8 million).</p> <p>The Group's management conducts an annual impairment test by comparing the carrying amount of goodwill with its recoverable amount. The Group's management determines the recoverable amount based on the value in use, which is calculated using the discounted cash flows model.</p> <p>Goodwill impairment test conducted by the Group's management during the current year did not indicate any impairment in goodwill.</p> <p>The discounted cash flows model requires making certain assumptions in respect of management's expectations of earnings growth before commission, taxes, depreciation and amortisation, the timing and quantum of future capital expenditures, long-term growth rates and the selection of discount rates that reflect related risks.</p> <p>This has been considered as a key audit matter due to size of balance, and the above assumptions are a key source of estimation uncertainty, which may affect the results of the calculation of the recoverable amount and therefore the impairment in goodwill.</p>	<p>The audit procedures in respect of impairment of goodwill included:</p> <ul style="list-style-type: none"> - Assessing the reasonableness of the future cash flows that the Group's management has estimated and whether they are unbiased. In doing so, we compared estimated future cash flows with the budget approved by the Board of Directors. We also compared the estimated future cash flows used by the management in previous impairment tests with actual results. - Assessing the reasonableness of the key assumptions made by management to calculate the value in use, which are related to long-term growth rates and discount rates. - Recalculating the present value of future cash flows considering the Group's management assumptions regarding long-term growth rates and discount rates. - Assessing the adequacy of disclosures related to the Group's accounting policy in respect of assessing the impairment of goodwill and disclosures related to the key sources of estimation uncertainty in respect of estimates and assumptions made and used.
<p>Refer to notes 3.3 (ii), 3.7 and 4.1 (i) for the accounting policies and note 5 for the related disclosures.</p>	



Independent Auditor's Report (continued)

To the Shareholders of Saudi Chemical Holding Company
 (A Saudi Joint Stock Company)
 Riyadh – Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (Continued)

Key audit matter	How the matter was addressed during our audit
<p>Impairment of trade receivables As at December 31, 2020, the balance of trade receivables amounted to SR 1,820 million against an allowance for expected credit loss of SR 132 million (December 31, 2019: SR 2,108 million against an allowance for expected credit loss of SR 119 million).</p> <p>The Group applies the expected credit loss model to measure and recognize impairment loss on trade receivables utilising the practical expedients permitted by IFRS 9 using the provision matrix.</p> <p>The Group uses the credit loss rates derived from historical credit loss experience and adjusts them to reflect information about current conditions and reasonable and supportable forecasts of future economic conditions to determine the probability of credit loss.</p> <p>This has been considered as a key audit matter because deriving the probability of credit loss requires making assumptions and expectations about future economic conditions, which are a key source of estimation uncertainty, which may affect the results of the calculation of the amount of impairment on trade receivables.</p>	<p>The audit procedures in respect of impairment of trade receivables included:</p> <ul style="list-style-type: none"> - Testing the accuracy and completeness of the provision matrix that shows ageing analysis of trade receivables by examining the accuracy of applying collections to related receivable amounts. - Recalculating the historical credit loss rates used by the Group's management. - Assessing the reasonableness of the key assumptions and expectations made regarding future economic conditions considered by the Group's management to adjust historical credit loss rates. - Recalculating the expected credit loss by applying the credit loss rates on aged groups of trade receivables. - Assessing the adequacy of disclosures related to the Group's accounting policy in respect of assessing the impairment of trade receivables and disclosures related to the key sources of estimation uncertainty in respect of estimates and assumptions made and used, as well as disclosure related to the ageing analysis of trade receivables and the movement in the expected credit loss allowance.
<p>Refer to notes 3.8 (i) (IV), 3.11 and 4.1 (iv) for the accounting policies and note 10 for the related disclosures.</p>	



Independent Auditor's Report (continued)

To the Shareholders of Saudi Chemical Holding Company
 (A Saudi Joint Stock Company)
 Riyadh – Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (Continued)

Key audit matter	How the matter was addressed during our audit
<p>Revenue recognition During the year ended December 31, 2020, the Group recognized revenues of SR 3,306 million (December 31, 2019: SR 2,949 million)</p> <p>The Group recognizes revenues as disclosed in note 3.17</p> <p>This has been considered as a key audit matter because the inherent risks associated with the recognition of revenues at amounts higher than the actual value or its recognition before transferring control of goods to customers, is considered high.</p>	<p>The audit procedures in respect of revenue recognition included:</p> <ul style="list-style-type: none"> - Evaluating the appropriateness of accounting policies related to the recognition of the Group's revenue by taking into account the requirements of IFRS 15 Revenue from Contracts with Customers. - Evaluating the design and implementation and testing the operating effectiveness of the Group's control activities over recognizing revenue in accordance with the Group's policy. - Examining sales transactions, on a sample basis, that occurred at the beginning or end of the year to assess whether the revenue was recognized in the correct period. - Selecting revenue transactions, on a sample basis, and verifying the supporting documents, which included signed agreements and delivery notes signed by customers, to ensure accuracy and occurrence of revenue.
<p>Refer to note 3.17 for the accounting policy and notes 21 and 29 for the related disclosures.</p>	



Independent Auditor's Report (continued)

To the Shareholders of Saudi Chemical Holding Company
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Riyadh – Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements (continued)

Other Information

Other information consists of the information included in the Group's 2020 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Group's financial reporting process.



Independent Auditor's Report (continued)

To the Shareholders of Saudi Chemical Holding Company
(A Saudi Joint Stock Company)
Riyadh – Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

As a part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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



Independent Auditor's Report (continued)

To the Shareholders of Saudi Chemical Holding Company
(A Saudi Joint Stock Company)
Riyadh – Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements (continued)

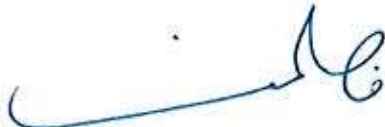
Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current 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.

Baker Tilly MKM & Co.
Certified Public Accountants



Majed Muneer Al Nemer
(Certified Public Accountant – License No. 381)
Riyadh on, Sha'ban 14, 1442H
Corresponding to March 27, 2021G



Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Financial Position
As at December 31, 2020

	Notes	2020 SR '000	2019 SR '000
ASSETS			
Non-current assets			
Goodwill	5	469,807	469,807
Intangible assets	6	7,052	3,204
Property, plant and equipment	7	478,783	466,672
Capital work in progress	7	423,884	205,167
Right-of-use assets	8	11,501	11,172
		<u>1,391,027</u>	<u>1,156,022</u>
Current assets			
Inventories	9	1,592,487	1,381,538
Trade receivables	10	1,687,627	1,988,185
Prepayments and other assets	12	61,352	51,939
Cash and cash equivalents	13	150,326	91,830
		<u>3,491,792</u>	<u>3,513,492</u>
TOTAL ASSETS		<u>4,882,819</u>	<u>4,669,514</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	1	843,200	843,200
Statutory reserve	14	326,890	319,488
General reserve	15	340,000	340,000
Retained earnings		120,267	51,278
Equity attributable to the Shareholders of the Company		<u>1,630,357</u>	<u>1,553,966</u>
Non-controlling interests		7,138	6,095
Total equity		<u>1,637,495</u>	<u>1,560,061</u>
Non-current liabilities			
Saudi Industrial Development Fund's financing	16.1	298,899	100,541
Lease liabilities	17	8,316	8,385
Employees' defined benefit obligation	18.1	63,769	66,933
		<u>370,984</u>	<u>175,859</u>
Current liabilities			
Current portion of Saudi Industrial Development Fund's financing	16.1	20,600	10,000
Current portion of lease liabilities	17	2,019	1,543
Short-term Islamic financing	16.2	1,399,658	1,311,644
Trade payables		1,236,123	1,476,399
Unpaid dividends		13,308	13,308
Accrued expenses and other liabilities	19	168,425	90,921
Zakat and income tax payable	20.3	34,207	29,779
		<u>2,874,340</u>	<u>2,933,594</u>
Total liabilities		<u>3,245,324</u>	<u>3,109,453</u>
TOTAL EQUITY AND LIABILITIES		<u>4,882,819</u>	<u>4,669,514</u>

The accompanying notes from 1 to 33 form an integral part of these consolidated financial statements.



Mr. Sameh Fathi Hassan
Group CFO



Eng. Thamer M. Al-Muahid
Group CEO



Eng. Fahad Saleh Al-Jarbou
Chairman BOD

Saudi Chemical Holding Company
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Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended December 31, 2020

	Notes	2020 SR '000	2019 SR '000
Revenues	21	3,306,160	2,949,168
Cost of revenues		<u>(2,847,001)</u>	<u>(2,491,206)</u>
Gross profit		459,159	457,962
Selling and marketing expenses	22	(155,334)	(152,849)
General and administrative expenses	23	(140,767)	(136,148)
Expected credit loss on trade receivables	10	<u>(13,289)</u>	<u>(44,478)</u>
Operating profit		149,769	124,487
Finance costs	24	(41,703)	(57,055)
Other income (expenses), net	25	<u>182</u>	<u>(1,196)</u>
Profit before zakat and income tax		108,248	66,236
Zakat and income tax expense	20.3	<u>(33,201)</u>	<u>(32,803)</u>
Net profit for the year		75,047	33,433
Other comprehensive income (loss)			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of employees' defined benefit obligation	18.1	<u>2,387</u>	<u>(1,418)</u>
Total comprehensive income for the year		77,434	32,015
Net profit for the year attributable to:			
Shareholders of the Company		74,026	32,877
Non-controlling interests		<u>1,021</u>	<u>556</u>
		75,047	33,433
Total comprehensive income for the year attributable to:			
Shareholders of the Company		76,391	31,441
Non-controlling interests		<u>1,043</u>	<u>574</u>
		77,434	32,015
Basic and diluted earnings per share (SR)	26	0.88	0.39

The accompanying notes from 1 to 33 form an integral part of these consolidated financial statements.



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Group CFO




Eng. Thamer M. Al-Muahid
Group CEO



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Chairman BOD

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Changes in Equity
For the Year Ended December 31, 2020

	Attributable to the Shareholders of the Company						
	Share capital SR '000	Statutory reserve SR '000	General reserve SR '000	Retained earnings SR '000	Total SR '000	Non- controlling interests SR '000	Total equity SR '000
As at January 1, 2019	632,400	316,200	340,000	233,925	1,522,525	6,171	1,528,696
Net profit for the year	-	-	-	32,877	32,877	556	33,433
Other comprehensive loss	-	-	-	(1,436)	(1,436)	18	(1,418)
Total comprehensive income for the year	-	-	-	31,441	31,441	574	32,015
Transfer to statutory reserve	-	3,288	-	(3,288)	-	-	-
Dividends by a subsidiary	-	-	-	-	-	(650)	(650)
Capital increase by granting free shares to the Shareholders	210,800	-	-	(210,800)	-	-	-
At December 31, 2019	843,200	319,488	340,000	51,278	1,553,966	6,095	1,560,061
As at January 1, 2020	843,200	319,488	340,000	51,278	1,553,966	6,095	1,560,061
Net profit for the year	-	-	-	74,026	74,026	1,021	75,047
Other comprehensive income	-	-	-	2,365	2,365	22	2,387
Total comprehensive income for the year	-	-	-	76,391	76,391	1,043	77,434
Transfer to statutory reserve	-	7,402	-	(7,402)	-	-	-
At December 31, 2020	843,200	326,890	340,000	120,267	1,630,357	7,138	1,637,495

The accompanying notes from 1 to 33 form an integral part of these consolidated financial statements.



Mr. Sameh Fathi Hassan
Group CFO

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Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2020

	2020	2019
	SR '000	SR '000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before zakat and income tax and non-controlling interests	108,248	66,236
<i>Adjustments to reconcile profit before zakat and income tax and non-controlling interests to net cash flows from operating activities</i>		
Amortisation	3,617	2,803
Depreciation	40,762	35,934
Depreciation of right-of-use assets	2,172	1,686
Loss on disposal of property, plant and equipment	45	4,514
Property, plant and equipment written off	471	2,425
Write off of intangible assets	35	-
Provision for slow-moving inventories	22,631	4,531
Expected credit loss on trade receivables	13,289	44,478
Provision for employees' defined benefit obligation	7,893	6,945
Finance costs	41,703	57,055
(Increase) decrease in operating assets:		
Inventories	(233,580)	(507,151)
Trade receivables	287,269	83,342
Prepayments and other assets	(9,413)	13,130
Increase (decrease) in operating liabilities:		
Trade payables	(240,276)	222,244
Accrued expenses and other liabilities	77,504	(1,739)
Cash provided by operations	122,370	36,433
Employees' defined benefit obligation paid	(10,055)	(4,987)
Zakat and income tax paid	(28,773)	(32,825)
Finance costs paid	(40,318)	(53,117)
Net cash provided by (used in) operating activities	43,224	(54,496)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to intangible assets	(7,500)	(150)
Additions to property, plant and equipment and capital work in progress	(271,891)	(161,332)
Proceeds from disposal of property, plant and equipment	301	265
Net cash used in investing activities	(279,090)	(161,217)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in Saudi Industrial Development Fund's financing	208,442	-
Payments of lease liabilities	(2,094)	(2,040)
Change in short-term Islamic financing	88,014	242,686
Dividends paid (including to non-controlling interests)	-	(916)
Net cash provided by financing activities	294,362	239,730
Net movement in cash and cash equivalents	58,496	24,017
Cash and cash equivalents at the beginning of the year	91,830	67,813
Cash and cash equivalents at the end of the year	150,326	91,830
Non-cash transactions:		
Right-of-use assets against lease liabilities	2,501	11,968
Capital increase by granting free shares to the Shareholders	-	210,800
Right-of-use assets against prepaid rent	-	890

The accompanying notes from 1 to 33 form an integral part of these consolidated financial statements.


Mr. Sameh Fathi Hassan
Group CFO


Eng. Thamer M. Al-Muahid
Group CEO


Eng. Fahad Saleh Al-Jarbou
Chairman BOD

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2020

1. Legal Status and Nature of Operations

Saudi Chemical Holding Company ("the Company") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia, under Commercial Registration No. 1010006161 issued in Riyadh on Safar 12, 1392H corresponding to March 28, 1972G. The Company is listed on the Tadawul stock exchange.

The Board of Directors of the Company in its meeting held on Rajab 20, 1440H corresponding to March 27, 2019G, recommended to the Extraordinary General Assembly a capital increase by granting one share for every three outstanding shares owned by the Shareholders of the Company. The Shareholders approved this recommendation in the Extraordinary General Assembly meeting held on Muharram 18, 1441H corresponding to September 17, 2019G, and the capital has been increased through transferring SR 210.8 million from the retained earnings, hence, the share capital of the Company became SR 843,200,000 as at December 31, 2019, which is comprised of 84,320,000 shares of SR 10 each.

The Company's trade name has been changed to Saudi Chemical Holding Company instead of Saudi Chemical Company pursuant to the Extraordinary General Assembly resolution in its meeting held on Muharram 18, 1441H corresponding to September 17, 2019G. The legal procedures related to this change have been finalized.

The Company and its subsidiaries (collectively referred to as "the Group") are principally engaged in:

- Managing the subsidiaries or participating in the management of other investees and providing the required support for these entities and real estate ownership;
- Manufacturing and selling of explosives and their derivatives for civil or military uses and providing technical support services in explosions;
- Manufacturing, wholesale and retail trading in medicines, medical materials and syrups, pharmaceutical preparations, medical and surgical tools and equipment, supplies of hospitals and medical centres and its related spare parts and food items; and
- Manufacture of ammonium nitrate.

The registered office of the Company is as follows: P.O. Box 2665 Riyadh 11461, Kingdom of Saudi Arabia

These consolidated financial statements include the financial statements of the Company and the financial statements of its following subsidiaries:

Subsidiary	Country of incorporation	Effective ownership as at December 31,	
		2020	2019
Saudi International Trading Company ("SITCO Pharma")	Kingdom of Saudi Arabia	99%	99%
Suez International Nitrate Company ("SINCO")	Arab Republic of Egypt	100%	100%
Chemical Company for Commercial Investment Limited ("CCCIL")	Kingdom of Saudi Arabia	100%	100%
AJA Pharmaceuticals Industries Company Limited ("AJA Pharma Company")	Kingdom of Saudi Arabia	100%	100%
Saudi Chemical Company Limited ("SCCL")	Kingdom of Saudi Arabia	100%	100%



2. Application of New and Revised Standards

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 01, 2020, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Revised 'Conceptual Framework for Financial Reporting'.
- Amendments to IFRS 3 Business Combinations to clarify the definition of a business.
- Amendments to IFRS 7 Financial Instruments: Disclosures and IFRS 9 Financial Instruments regarding pre-replacement issues in the context of the IBOR reform.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors regarding the definition of material.
- Amendments to IFRS 16 Leases provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

2.2 New and revised IFRSs in issue but not yet effective and not early adopted

The Group has not yet early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely
Amendments to IAS 1 <i>Presentation of Financial Statements</i> regarding the classification of liabilities.	January 01, 2023
Amendments IFRS 3 <i>Business Combination</i> updating a reference to the Conceptual Framework	January 01, 2022
Amendments to IAS 16 <i>Property, Plant and Equipment</i> prohibiting 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	January 01, 2022
Amendments to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> regarding the costs to include when assessing whether a contract is onerous	January 01, 2022
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> , IFRS 9 <i>Financial Instruments</i> and IFRS 16 <i>Leases</i> regarding replacement issues in the context of the IBOR reform	January 01, 2021
Annual Improvements to IFRS 2018 – 2020 Cycle amending IFRS 1, IFRS 9 and IFRS 16.	January 01, 2022

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.



3. Summary of Significant Accounting Policies

3.1 Statement of compliance

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

The accounting policies and the methods of computation followed in the preparation of these consolidated financial statements for the year ended December 31, 2020 are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2019.

3.2 Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis except for the employees' defined benefit obligation, which was measured at revalued amount using the expected credit unit method and actuarial assessments at the end of the reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation techniques. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date.
- Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable inputs for the asset or liability.

The Group presents the consolidated statement of financial position on non-current and current basis.



3. Summary of Significant Accounting Policies (continued)

3.3 Basis of consolidation and goodwill

i) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and the financial statements of the entities controlled by the Company mentioned in note 1. Control is achieved when the Company:

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

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

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

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous Shareholders' meetings.

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

Profit or loss and each component of other comprehensive income are attributed to the Shareholders of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the Shareholders of the Company and to the non-controlling interests even if this result in then non-controlling interests having a deficit balance.

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

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

ii) Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed

Goodwill is reviewed for impairment at least annually, refer to the policy 3.7.



3. Summary of Significant Accounting Policies (continued)

3.4 Foreign currency translation

i) Functional and presentation currency

These consolidated financial statements are presented in thousands of Saudi Riyals except where marked otherwise. Saudi Riyal is the functional currency of the Group. The functional currency of all the subsidiaries is Saudi Riyal except for SINCO which is in the Arab Republic of Egypt and uses United States Dollar. Since United States Dollar is pegged to Saudi Riyal, the translation of SINCO' financial statements does not result in translation differences.

ii) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognized in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

3.5 Property, plant and equipment and capital work in progress

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and financing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

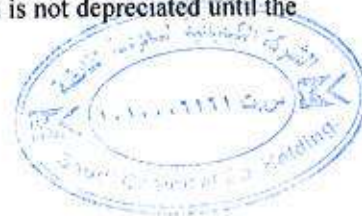
Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	<u>Number of years</u>
Buildings and infrastructure cost	20-33
Leasehold improvements	10-33 (shorter of the lease term or useful life)
Machinery and equipment	7-10
Furniture, fixtures and tools	7-10
Vehicles and transportation equipment	4

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit or loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at the end of each reporting period with the effect of any changes in estimates being accounted for on a prospective basis.

Capital work in progress is stated at cost less impairment losses, if any, and is not depreciated until the asset is brought into commercial operations.



3. Summary of Significant Accounting Policies (continued)

3.6 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and/or accumulated impairment losses, if any. Amortisation is recognized on a straight-line basis over their estimated useful lives. The useful lives and methods of amortisation are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses, if any.

Expenditure on research activities is recognized as an expense in the period in which it is incurred. When certain conditions are demonstrated, development expenditure that gives rise to an internally generated intangible asset is capitalized. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, if any, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination and recognized separately from goodwill are recognized initially at their fair value at the acquisition date (which is regarded as their cost) and subsequently reported at cost less accumulated amortisation and accumulated impairment losses, if any, on the same basis as intangible assets that are acquired separately.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

3.7 Impairment of non-financial assets

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the assets may be impaired. The Group assesses at each reporting date whether there is an indication that a tangible or intangible asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

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



3. Summary of Significant Accounting Policies (continued)

3.7 Impairment of non-financial assets

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

Impairment recognized previously on goodwill is not reversed.

3.8 Financial instruments

Financial instruments are recognized when the Group becomes a party to the contractual provisions of the instrument. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

The Group determines the classification of its financial assets at initial recognition. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

(I) Classification

The financial assets are classified in the following measurement categories:

- a) Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), or
- b) Those to be measured subsequently at amortised cost.

(II) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recognized in profit or loss as incurred.

Debt instrument

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies debt instruments at amortised cost based on the below:

- a) The asset is held within a business model with the objective of collecting the contractual cash flows, and
- b) The contractual terms give rise on specified dates to cash flows that are solely payments of principal and commission on the principal outstanding.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective commission rate.

Equity instrument

If the Group elects to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments shall continue to be recognized in profit or loss as other income when the Group's right to receive payments is established. There are no impairment requirements for equity investments measured at fair value through other comprehensive income. Changes in the fair value of financial assets at fair value through profit or loss shall be recognized in other gains or losses in profit or loss as applicable.



3. Summary of Significant Accounting Policies (continued)

3.8 Financial instruments (continued)

i) Financial assets (continued)

(III) De-recognition of financial assets

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

(IV) Impairment of financial assets

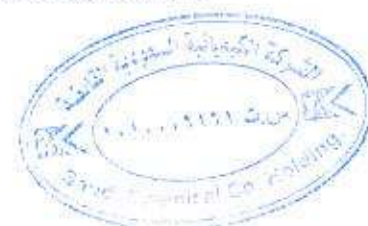
The Group applies expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets and credit risk exposure that are debt instruments and are measured at amortised cost such as loans, deposits and trade receivables.

An expected credit loss is the probability-weighted estimate of credit losses (i.e. present value of all cash shortfalls) over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that the Group expects to receive. The expected credit losses consider the amount and timing of payments and hence, a credit loss arises even if the Group expects to receive the payment in full but later than when contractually due. The expected credit loss method requires assessing credit risk, default and timing of collection since initial recognition. This requires recognizing allowance for expected credit losses in profit or loss even for receivables that are newly originated or acquired.

Impairment of financial assets is measured as either 12 month expected credit losses or life time expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. '12 month expected credit losses' represent the expected credit losses resulting from default events that are possible within 12 months after the reporting date. 'Lifetime expected credit losses' represent the expected credit losses that result from all possible default events over the expected life of the financial asset.

Trade receivables are of a short duration, normally less than 12 months and hence the loss allowance measured as lifetime expected credit losses does not differ from that measured as 12 month expected credit losses. The Group uses the practical expedient in IFRS 9 for measuring expected credit losses for trade receivables using a provision matrix based on ageing of receivables.

The Group uses loss rates based on historical loss experience and adjusts the historical loss rates to reflect the information about current conditions and reasonable and supportable forecasts of future economic conditions. The loss rates differ based on the ageing of the amounts that are past due and are generally higher for those with the higher ageing.



3. Summary of Significant Accounting Policies (continued)

3.8 Financial instruments (continued)

i) Financial assets (continued)

(V) Income recognition

Commission income

For all financial instruments measured at amortised cost and commission bearing financial assets, commission income is recognized using the effective commission rate, which is the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective commission rate of the instrument and continues unwinding the discount as commission income. Commission income on impaired financial asset is recognized using the original effective commission rate.

Dividends income

Dividends receivable from financial instruments are recognized in profit or loss only when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and the amount of the dividend can be measured reliably.

ii) Financial liabilities

The Group determines the classification of its financial liabilities at initial recognition.

(I) Classification

The financial liabilities are classified in the following measurement categories:

- a) Those to be measured subsequently at fair value through profit or loss, or
- b) Those to be measured subsequently at amortised cost

(II) Measurement

At initial recognition, the Group measures a financial liability at its fair value less transaction costs that are directly attributable to the issuance of the financial liability. Financial liabilities that are not designated as at fair value through profit or loss, such as borrowings and trade payables, are measured subsequently at amortised cost using the effective commission rate method.

The effective commission rate method is a method of calculating the amortised cost of a debt instrument and of allocating commission charge over the relevant effective commission rate period. The effective commission rate is the rate that exactly discounts estimated future cash outflow (including all fees paid or received that form an integral part of the effective commission rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.



3. Summary of Significant Accounting Policies (continued)

3.8 Financial instruments (continued)

ii) Financial liabilities (continued)

(III) De-recognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

3.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand and with banks and other short-term highly liquid investments with original maturities of three-months or less from their purchase date.

3.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

3.11 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective commission rate method, less an allowance for expected credit loss. Changes in such allowance are recognized in profit or loss. When trade receivables are uncollectible, they are written-off. Any subsequent recoveries of amounts previously written-off are recognized in profit or loss. For calculation of expected credit loss allowance on trade receivables refer to note 3.8 (i) (IV) and note 4.1 (iv).

3.12 Employees' defined benefit obligation

The cost of employees' defined benefit obligation is determined using actuarial valuations and projected unit credit method. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, withdrawal before normal retirement age, mortality rates etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, the employees' defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. The discount rate used is set by reference to market yields at the end of the reporting period on high quality corporate bonds.



3. Summary of Significant Accounting Policies (continued)

3.13 Provisions and contingent liabilities

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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

3.14 Financing costs

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

3.15 Loans

Loans (including Islamic financing and Saudi Industrial Development Fund's financing) are initially recognized at fair value less transaction costs directly attributable to obtaining the loans. Loans are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the consolidated statement of financial position date, upon which such liability is recognized at amortised cost using the effective commission rate method.

3.16 Trade payables and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Unearned commissions on the purchases of pharmaceutical goods are recognized as liabilities under unearned commissions until such goods are sold, at which time the commissions are recognized as a reduction of cost of revenues.

3.17 Revenue

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



3. Summary of Significant Accounting Policies (continued)

3.17 Revenue (continued)

Sale of goods – other than pharmaceutical and related products

Revenue is recognized when control of the products has transferred, being when the products are either delivered to the customers, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs based on contractual terms of the contract, when the risks of obsolescence and loss have been transferred to the customer and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been met.

Revenue recognized is measured at the transaction price as agreed in the sales contract net of value added tax. The transaction price is adjusted for any variable consideration in the form of price concessions, discounts, rebates, refunds, credits etc. The Group estimates the variable consideration as the expected value of the likely transaction price adjustment. The Group includes in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Sale of goods – pharmaceutical and related products

This involves the sales of pharmaceutical and related products to hospitals and pharmacies. The Group does not establish the prices for the pharmaceutical and related products sold as both the purchase and selling prices for all pharmaceutical and related products are fixed by the Saudi Food and Drug Authority, except for un-priced items. Where the Group has determined that it is acting as an agent rather than a principal in respect of such sales, the revenue is recognized as the net commission earned.

3.18 Selling, marketing, general and administrative expenses

Selling, marketing, general and administrative expenses include direct and indirect costs not specifically part of cost of revenues. Allocations between selling and marketing, general and administrative expenses and cost of revenues, when required, are made on a consistent basis.

3.19 Right-of-use assets and lease liabilities

The details of accounting policies under both IFRS 16 and IAS 17 are presented separately below.

The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.



3. Summary of Significant Accounting Policies (continued)

3.19 Right-of-use assets and lease liabilities (continued)

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective commission method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.



3. Summary of Significant Accounting Policies (continued)

3.19 Right-of-use assets and lease liabilities (continued)

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the policy related to the impairment of non-financial assets, refer to note 3.7.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3.20 Zakat and taxes

The Company and its Saudi subsidiaries are subject to zakat in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT"). Provision for zakat is charged to profit or loss. Till 2019, the subsidiaries filed their Zakat declarations separately. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. Starting January 01, 2020, the Group obtained the approval of the General Authority of Zakat and Tax to file a consolidated Zakat declaration for itself and its following subsidiaries:

- a. Saudi Chemical Company Limited ("SCCL");
- b. Chemical Company for Commercial Investment Limited ("CCCIL"); and
- c. AJA Pharmaceuticals Industries Company Limited ("AJA Pharma Company").

The Company and its Saudi subsidiaries withhold required taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, as required under Saudi Arabian Income Tax Law.

Value added tax

Revenues, expenses and assets are recognized net of the amount of value added tax, except where the value added tax incurred on a purchase of assets or services is not recoverable from the General Authority of Zakat and Tax, in which case, the value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable. Trade receivables and payables are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the General Authority of Zakat and Tax is included as part of other assets or liabilities in the statement of financial position.

Foreign subsidiaries may be subject to income taxes in their respective countries of domicile. Such income taxes, if any, are charged to profit or loss.



Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2020

3. Summary of Significant Accounting Policies (continued)

3.20 Zakat and taxes (continued)

Value added tax (continued)

Deferred income taxes are recognized on all major temporary differences between accounting income and taxable income and are recognized during the year in which such differences arise and are adjusted when related temporary differences are reversed. Deferred income tax assets on carry forward losses are recognized to the extent that it is probable that future taxable income will be available against which such carry-forward tax losses can be utilised. Deferred income taxes are determined using tax rates which have been enacted by the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

The subsidiary SINCO was established in the Arab Republic of Egypt in the free-zone area, and hence is exempted from income tax. Later in 2008, the free-zone status of the subsidiary was cancelled, however the subsidiary filed a legal case for reinstatement of free-zone status and the advisors believe that it is probable that free-zone status will be reinstated. As a result, SINCO's deferred tax was not recognized.

3.21 Dividend payments

The Group recognizes a liability to make cash distributions to the Shareholders when the distribution is authorised, and the distribution is no longer at the discretion of the Group. As per Regulations for Companies, a distribution is authorised when it is approved by the Board of Directors and subsequently by the Shareholders in the General Assembly meetings.

3.22 Earnings per share

Earnings per share is computed based on net profit for the year attributable to Shareholders and the weighted average number of shares outstanding during the year. The diluted earnings per share is the same as the basic earnings per share as the Group does not have any issued dilutive instruments.



4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

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

4.1 Key sources of estimation uncertainty

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

i) Impairment reviews of non-financial assets

Assets with indefinite useful lives are tested for impairment at least annually, while assets with finite useful lives, are tested for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment testing is an area involving management judgement, requiring amongst other matters an assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- a) growth in earnings before commission, tax, depreciation and amortisation (EBITDA), calculated as adjusted operating profit before depreciation and amortisation;
- b) timing and quantum of future capital expenditure;
- c) long-term growth rates; and
- d) selection of discount rates to reflect the risks involved.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

ii) Estimation of useful lives and residual values

The useful lives used to amortise or depreciate intangible assets or property, plant and equipment respectively relates to the expected future performance of the assets acquired and management's judgement based on technical evaluation of the period over which economic benefit will be derived from the asset. The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. An asset's expected life and expected residual value has a direct effect on the depreciation charged in profit or loss.

The useful lives and residual values of the Group's assets are determined by management based on technical evaluation at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their lives such as changes in technology.



4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

4.1 Key sources of estimation uncertainty (continued)

iii) Zakat provision

The Group's current zakat provision relates to management's assessment of the amount of zakat payable on open zakat positions where the liabilities remain to be agreed with GAZT. Due to the uncertainty associated with zakat, there is a possibility that, on conclusion of open zakat assessments at a future date, the final outcome may differ significantly.

iv) Calculation of expected credit loss allowance on trade receivables

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

v) Discount rate used to determine the carrying amount of the employees' defined benefit obligation

The determination of the employees' defined benefit obligation depends on certain assumptions, which include selection of the discount rate. The discount rate is set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant assumptions are required to be made when setting the criteria for bonds to be included in the population from which the yield curve is derived. These assumptions are considered to be a key source of estimation uncertainty as relatively small changes in the assumptions used may have a significant effect on the Group's consolidated financial statements within the next year. Further information on the carrying amounts of the employees' defined benefit obligation and the sensitivity of those amounts to changes in discount rate are provided in note 18.

vi) Significant matters during the period

The outbreak of novel coronavirus ("COVID - 19") since early 2020, its spread across mainland China and then globally caused disruptions to businesses and economic activity globally including the Kingdom of Saudi Arabia and the declaration of this pandemic by the World Health Organization necessitated the Company's management to revisit its significant judgments in applying the Company's accounting policies and the methods of computation and the key sources of estimation applied to the Group's annual consolidated financial statements for the year ended December 31, 2020.

Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, the Company's management carried out an impact assessment on the overall Company's operations and business aspects including factors like supply chain, travel restrictions, oil prices, product demand etc. and concluded that, as of the issuance date of these consolidated financial statements, no significant changes are required to the judgements and key estimates. However, Other than the expected credit losses arising from financial assets, in the view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.



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5. Goodwill

The goodwill arose upon the acquisition of SITCO Pharma. No impairment loss was recognized since the goodwill arose. The cash generating unit to which goodwill is associated is the medicines and medical supplies segment.

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of SITCO Pharma as a cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the Board of Directors covering a five-year period, and a discount rate of 8.67% per annum (2019: 12.3%).

Cash flows beyond that five-year period have been extrapolated using a steady 2.0% per annum growth rate (2019: 2.0%). The steady growth rate is estimated by the Board of Directors based on past performance of SITCO Pharma and their expectations of market development

There was no impairment as a result of the goodwill impairment test performed by the Group's management during the current year.

6. Intangible Assets

	New Brand Key Money <u>SR'000</u>	Computer Software <u>SR'000</u>	Total <u>SR'000</u>
Cost			
January 1, 2020	5,000	19,467	24,467
Additions	7,500	-	7,500
Write off	-	(35)	(35)
December 31, 2020	<u>12,500</u>	<u>19,432</u>	<u>31,932</u>
Accumulated Amortisation			
January 1, 2020	4,000	17,263	21,263
Charge for the year	2,500	1,117	3,617
December 31, 2020	<u>6,500</u>	<u>18,380</u>	<u>24,880</u>
Net Book Value			
December 31, 2020	<u>6,000</u>	<u>1,052</u>	<u>7,052</u>
	New Brand Key Money <u>SR'000</u>	Computer Software <u>SR'000</u>	Total <u>SR'000</u>
Cost			
January 1, 2019	5,000	19,317	24,317
Additions	-	150	150
December 31, 2019	<u>5,000</u>	<u>19,467</u>	<u>24,467</u>
Accumulated Amortisation			
January 1, 2019	3,000	15,460	18,460
Charge for the year	1,000	1,803	2,803
December 31, 2019	<u>4,000</u>	<u>17,263</u>	<u>21,263</u>
Net Book Value			
December 31, 2019	<u>1,000</u>	<u>2,204</u>	<u>3,204</u>



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	Parcels of Land		Buildings and Infrastructure		Leasehold Improvements	Machinery and Equipment	Furniture, Fixtures and Tools	Vehicles and Transportation Equipment	Total	Capital Work in Progress
	SR'000	SR'000	SR'000	SR'000						
Cost										
January 1, 2020	30,973	424,067	49,455	262,264	27,648	67,612	205,167			
Additions	-	1,540	3,372	8,908	379	3,872	18,071			
Disposals	-	-	-	(679)	(21)	(824)	(1,524)			
Write-off	-	-	(822)	-	-	-	(822)			
Transfers	-	10,796	-	24,736	87	-	35,619			
December 31, 2020	30,973	436,403	52,005	295,229	28,093	70,660	913,363			423,884
Accumulated Depreciation										
January 1, 2020	-	174,472	16,395	134,056	20,368	50,056	395,347			
Charge for the year	-	9,677	2,719	20,027	1,466	6,873	40,762			
Disposals	-	-	-	(453)	(21)	(704)	(1,178)			
Write-off	-	-	(351)	-	-	-	(351)			
December 31, 2020	-	184,149	18,763	153,630	21,813	56,225	434,580			-
Net Book Value										
December 31, 2020	30,973	252,254	33,242	141,599	6,280	14,435	478,783			423,884



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7. Property, Plant and Equipment and Capital Work in Progress (continued)

Cost	Parcels of Land		Buildings and Infrastructure Costs		Leasehold Improvements		Machinery and Equipment		Furniture, Fixtures and Tools		Vehicles and Transportation Equipment		Capital Work in Progress	
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
January 1, 2019	15,869	404,736	33,208	244,419	25,325	62,656	786,213	130,343						
Additions	15,104	2,373	2,808	13,541	2,153	5,649	41,628	119,703						
Disposals	-	-	(63)	(254)	(29)	(1,379)	(1,725)	(4,545)						
Write-off	-	(1,554)	(2,326)	(297)	(126)	(128)	(4,431)	-						
Transfers	-	18,512	15,828	4,855	325	814	40,334	(40,334)						
December 31, 2019	30,973	424,067	49,455	262,264	27,648	67,612	862,019	205,167						
Accumulated Depreciation														
January 1, 2019	-	165,751	14,737	118,277	18,943	45,202	362,910	-						
Charge for the year	-	9,355	2,548	16,144	1,526	6,361	35,934	-						
Disposals	-	-	(30)	(73)	(9)	(1,379)	(1,491)	-						
Write-off	-	(634)	(860)	(292)	(92)	(128)	(2,006)	-						
December 31, 2019	-	174,472	16,395	134,056	20,368	50,056	395,347	-						
Net Book Value														
December 31, 2019	30,973	249,595	33,060	128,208	7,280	17,556	466,672	205,167						

- Finance costs included in the cost of qualifying assets during the year ended December 31, 2020 amounted to SR 4,761 thousand (December 31, 2019: SR 4,172 thousand.) Refer to note 24.

- Capital work in progress represents costs incurred in constructing the Group's medicine production lines in Ha'il City, explosives plant in Riyadh City as well as other projects undertaken to comply with security regulations. Refer to note 28.2 for the capital commitments associated with those works in progress.

The Group's pharmaceutical factory in Ha'il City and the explosives plant in Riyadh City including the buildings, machinery, vehicles and all related assets have been pledged to the benefit of SIDF to secure the related loans. Refer to note (16. 1).



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7. Property, Plant and Equipment and Capital Work in Progress (continued)

The depreciation charge is allocated as follows:

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Cost of revenues	21,167	17,438
Selling and marketing expenses (note 22)	8,059	6,491
General and administrative expenses (note 23)	11,536	12,005
	<u>40,762</u>	<u>35,934</u>

8. Right-of-Use Assets

	Parcels of Land <u>SR'000</u>	Warehouses and offices <u>SR'000</u>	Total <u>SR'000</u>
Cost			
January 1, 2020	10,168	2,690	12,858
Additions	-	2,501	2,501
December 31, 2020	<u>10,168</u>	<u>5,191</u>	<u>15,359</u>

Accumulated Depreciation

January 1, 2020	1,177	509	1,686
Charge for the year	1,180	992	2,172
December 31, 2020	<u>2,357</u>	<u>1,501</u>	<u>3,858</u>

Net Book Value

December 31, 2020	<u>7,811</u>	<u>3,690</u>	<u>11,501</u>
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	Parcels of Land <u>SR'000</u>	Warehouses and offices <u>SR'000</u>	Total <u>SR'000</u>
Cost			
January 1, 2019	10,168	119	10,287
Additions	-	2,571	2,571
December 31, 2019	<u>10,168</u>	<u>2,690</u>	<u>12,858</u>

Accumulated Depreciation

January 1, 2019	-	-	-
Charge for the year	1,177	509	1,686
December 31, 2019	<u>1,177</u>	<u>509</u>	<u>1,686</u>

Net Book Value

December 31, 2019	<u>8,991</u>	<u>2,181</u>	<u>11,172</u>
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The Group leases several parcels of land, warehouses and offices. The lease terms vary from 1 to 20 years.

The maturity analysis of lease liabilities is presented in note 17.



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Notes to the Consolidated Financial Statements (continued)
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8. Right-of-Use Assets (continued)

The amounts recognized in profit or loss during the year:

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Depreciation expense of right-of-use assets	2,172	1,686
Interest expense on lease liabilities (note 24)	497	478
Rent expense - short-term leases	7,075	5,873
	<u>9,744</u>	<u>8,037</u>

As at December 31, 2020, the Group is committed to SR 1,275 thousand (December 31, 2019, SR 6,359 thousand) for short-term leases.

9. Inventories

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Medicines	1,568,127	1,315,690
Raw materials (ammonium nitrate and other chemicals)	32,995	50,042
Finished goods (explosives and accessories)	13,350	16,695
Spare parts, not held for sale	5,079	5,980
	<u>1,619,551</u>	<u>1,388,407</u>
Provision for slow-moving inventories	<u>(27,064)</u>	<u>(6,869)</u>
	<u>1,592,487</u>	<u>1,381,538</u>

Movement in the provision for slow-moving inventories is as follows:

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
January 1	6,869	6,107
Additions	22,631	4,531
Written off	(2,436)	(3,769)
December 31	<u>27,064</u>	<u>6,869</u>

10. Trade Receivables

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Trade receivables	1,820,107	2,107,549
Expected credit loss allowance	<u>(132,480)</u>	<u>(119,364)</u>
	<u>1,687,627</u>	<u>1,988,185</u>

Trade receivables as at December 31, 2020, include balances which are due from Saudi Arabian government organizations amounting to SR 1,138 million, that is 67% of total trade receivables (December 31, 2019: SR 1,392 million, that is 70% of total trade receivables). Such organizations have strong credit ratings in the Saudi Arabian market.

Revenues for the year ended December 31, 2020, includes sales which were made to one customer amounting to SR 546 million, that is 17% of total revenues (December 31, 2019: SR 768 million, that is 26% of total revenues).



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Notes to the Consolidated Financial Statements (continued)
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10. Trade Receivables (continued)

Movement in the expected credit loss allowance is as follows:

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
January 1	119,364	75,009
Additions	13,289	44,478
Written off	(173)	(123)
December 31	<u>132,480</u>	<u>119,364</u>

As at December 31, the ageing of receivables is as follows:

	Total	Current not due	0 - 90 days	91 - 180 days	181 - 360 days	More than 360 days
	SR'000					
2020	<u>1,687,627</u>	<u>1,146,232</u>	<u>141,640</u>	<u>60,088</u>	<u>106,995</u>	<u>232,672</u>
2019	<u>1,988,185</u>	<u>1,244,869</u>	<u>301,645</u>	<u>111,675</u>	<u>61,601</u>	<u>268,395</u>

11. Related-party Transactions and Balances

The Group has transactions with related parties which include insignificant payments, expenses and cost amongst the Group's companies.

Related party transactions during the year ended December 31, 2020 include directors' remuneration amounting to SR 3,746 million and expenses amounting to SR 351 thousand (2019: SR 3.340 million and SR 324 thousand respectively). Refer to note 23.

11.1 Compensation and benefits of key executives

The following represents the compensation of the top 3 executives for the year ended December 31:

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Short-term benefits	4,387	4,719
Long-term benefits	176	254
	<u>4,563</u>	<u>4,973</u>



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12. Prepayments and Other Assets

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Tax authority receivable – Egypt	24,767	23,798
Advances to suppliers	16,869	12,025
Value added tax receivable	8,094	-
Deferred registration and licensing fees	4,609	4,801
Prepaid expenses	3,884	5,036
Advances to employees	1,525	3,857
Other	1,604	2,422
	<u>61,352</u>	<u>51,939</u>

13. Cash and Cash Equivalents

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Cash at bank	149,507	91,061
Cash on hand	819	769
	<u>150,326</u>	<u>91,830</u>

14. Statutory Reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-Laws, the Company is required to transfer 10% of net profit for the year to the statutory reserve and may cease such transfer once it reaches 30% of the share capital. The transfer will cease once it reached 50% of the share capital, as approved by the General Assembly in 2017. This reserve is currently not available for distribution to the Shareholders.

15. General Reserves

The general reserve is appropriated according to the Board of Directors' recommendation and the Shareholders' approval in the General Assembly meeting.



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16. Financing

16.1 Saudi Industrial Development Fund's financing

One of the subsidiaries of the Group (AJA Pharmaceuticals Industries Company Limited) signed a long term financing facility agreement with Saudi Industrial Development Fund ("SIDF") for the purpose of financing the capital expenditure of the plant in Ha'il, amounting to SR 157.5 million, of which SR 157.5 million was utilised up to December 31, 2020 (December 31, 2019: SR 118.6 million). The proceeds received from the SIDF were originally reduced by processing fees of SR 11.8 million, and hence the balance of this financing appears net of amortized transaction cost amounting to SR 7 million as at December 31, 2020 (December 31, 2019: SR 8 million). During the year, the repayment of the above finance has been rescheduled to be repaid after a grace period, in fifteen consecutive semi-annual installments rather than repaid in sixteen consecutive semi-annual installments starting from Jumada Althani 15, 1442H corresponding to January 28, 2021G with the last instalment due on Rabi' Al-Thani 15, 1449H corresponding to September 16, 2027G. The agreement includes certain financial covenants, and is secured by a promissory note, and pledge of the subsidiary's property, plant and equipment.

Also, one of the subsidiaries of the Group (Saudi Chemical Company Limited) signed a long term financing facility agreement with Saudi Industrial Development Fund ("SIDF") for the purpose of financing the capital expenditure of the new plant in Riyadh, amounting to SR 229 million, of which SR 183.2 million was utilised up to December 31, 2020 (December 31, 2019: SR nil). The proceeds received from the SIDF were originally reduced by processing fees of SR 14.6 million, and hence the balance of this financing appears net of amortized transaction cost amounting to SR 14.2 million as at December 31, 2020 (December 31, 2019: nil). The total finance is repayable, after a grace period, in fourteen consecutive semi-annual instalments starting from Rabei' Althani 15, 1444H corresponding to November 9, 2022G with the last instalment due on Shawwal 15, 1450H corresponding to February 28, 2029G. The agreement includes certain financial covenants, and is secured by a promissory note, and pledge of the subsidiary's property, plant and equipment.

The following represents a summary of information about the Saudi Industrial Development Fund's financing:

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Facility limit	386,500	157,500
Withdrawals	340,700	118,559
Less: Processing fees	<u>(21,201)</u>	<u>(8,018)</u>
	319,499	110,541
Of which:		
Non-current portion	298,899	100,541
Current portion	<u>20,600</u>	<u>10,000</u>
	<u>319,499</u>	<u>110,541</u>



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16. Financing (continued)

16.2 Short-term Islamic financing

The Group using Islamic financing to finance its business operations. These facilities bear finance costs at SIBOR plus prevailing market rates. The facilities are secured by promissory notes. The facilities agreements include covenants requiring the maintenance of certain levels of financial ratios, and one of the agreements includes acknowledged assignment of SIDF financing's proceeds in favour of the lending bank. The following represents a summary of information about the short-term Islamic financing:

	Amounts utilized in the form of				Unutilized amounts SR'000
	Facility limit SR'000	Withdrawals SR'000	(Note 28.2) Letters of credit SR'000	(Note 28.1) Letters of guarantee SR'000	
As at December 31, 2020					
Saudi Chemical Holding Company	389,725	171,725	-	14,321	203,679
Saudi International Trading Company	3,209,700	988,848	296,894	252,046	1,671,912
Chemical Company for Commercial Investment Limited	65,000	35,662	9,117	-	20,221
AJA Pharmaceuticals Industries Company Limited	123,000	82,429	4,551	-	36,020
Saudi Chemical Company Limited	340,722	120,994	-	574	219,154
Total	4,128,147	1,399,658	310,562	266,941	2,150,986

	Amounts utilized in the form of				Unutilized amounts SR'000
	Facility limit SR'000	Withdrawals SR'000	(Note 28.2) Letters of credit SR'000	(Note 28.1) Letters of guarantee SR'000	
As at December 31, 2019					
Saudi Chemical Holding Company	331,000	205,950	12,020	25,346	87,684
Saudi International Trading Company	2,820,000	990,466	539,900	195,275	1,094,359
Chemical Company for Commercial Investment Limited	65,000	21,915	22,142	-	20,943
AJA Pharmaceuticals Industries Company Limited	123,000	84,313	27,733	18	10,936
Saudi Chemical Company Limited	174,722	9,000	148	574	165,000
Total	3,513,722	1,311,644	601,943	221,213	1,378,922



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17. Lease Liabilities

	<u>2020</u> <u>SR '000</u>	<u>2019</u> <u>SR '000</u>
January 1	9,928	9,397
Additions	2,501	2,571
Payments / Transferred to other liabilities	<u>(2,094)</u>	<u>(2,040)</u>
December 31	<u>10,335</u>	<u>9,928</u>
Of which:		
Non-current lease liabilities	8,316	8,385
Current lease liabilities	<u>2,019</u>	<u>1,543</u>
	<u>10,335</u>	<u>9,928</u>

The maturity analysis of lease liabilities is as follows:

	<u>2020</u> <u>SR '000</u>	<u>2019</u> <u>SR '000</u>
Not later than one year	2,536	2,040
Later than one year and not later than five years	6,613	5,945
Later than five years	<u>3,308</u>	<u>4,311</u>
	12,457	12,296
Deferred finance costs	<u>(2,122)</u>	<u>(2,368)</u>
	<u>10,335</u>	<u>9,928</u>

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

All lease liabilities are denominated in Saudi Riyal.

18. Employees' Defined Benefit Obligation

The Group is required to pay post-employment benefits to all employees under Saudi Labour Regulations on termination of their employment. The employees' defined benefit obligation is estimated through actuarial valuation using the projected unit credit method.

18.1 Reconciliation of the present value of the employees' defined benefit obligation

	<u>2020</u> <u>SR'000</u>	<u>2019</u> <u>SR'000</u>
January 1	<u>66,933</u>	<u>61,080</u>
Current service costs	7,893	6,945
Finance costs (note 24)	1,385	2,477
Total charge to profit or loss	<u>9,278</u>	<u>9,422</u>
Actuarial remeasurement (gain) loss	<u>(2,387)</u>	<u>1,418</u>
Total charge to other comprehensive income	<u>(2,387)</u>	<u>1,418</u>
Benefits paid during the year	<u>(10,055)</u>	<u>(4,987)</u>
December 31	<u>63,769</u>	<u>66,933</u>



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18. Employees' Defined Benefit Obligation (continued)

18.2 Principal actuarial assumptions

The following significant actuarial assumptions were used by the Group for the valuation of the employees' defined benefit obligation:

	<u>2020</u>	<u>2019</u>
Valuation discount rate	2.00%	2.14% - 2.82%
Expected rate of increase in salary level	1.84% - 2.94%	2.00% - 3.00%

18.3 Sensitivity analysis of actuarial assumptions

The impact of changes in actuarial assumptions on the present value of the employees' defined benefit obligation is as follows:

	<u>2020</u> <u>SR'000</u>	<u>2019</u> <u>SR'000</u>
Valuation discount rate		
- Increase by 1%	(3,282)	(3,297)
- Decrease by 1%	3,708	3,718
Expected rate of increase in salary level		
- Increase by 1%	3,990	4,034
- Decrease by 1%	(3,603)	(3,648)

19. Accrued Expenses and Other Liabilities

	<u>2020</u> <u>SR'000</u>	<u>2019</u> <u>SR'000</u>
Unearned commissions	90,882	58,650
Accrued employee benefits	27,174	18,643
Provision for lawsuits	21,873	-
Accrued expenses	8,968	5,991
Provision for sale discount	6,119	-
Advances from customers	3	775
Other liabilities	13,406	6,862
	<u>168,425</u>	<u>90,921</u>

20. Zakat and Income Tax Payable

Zakat and income tax liabilities for the Group as at 31 December are summarised as follows:

	<u>2020</u> <u>SR'000</u>	<u>2019</u> <u>SR'000</u>
Company's provision for zakat	9,313	8,472
Subsidiaries' provision for zakat and income tax	24,894	21,307
	<u>34,207</u>	<u>29,779</u>

20.1 Company's adjusted net profit for the year

	<u>2020</u> <u>SR'000</u>	<u>2019</u> <u>SR'000</u>
Profit before Company's zakat	86,542	31,441
Provisions	42,487	869
Adjusted net profit for the year (note 20.2)	<u>129,029</u>	<u>32,310</u>



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20. Zakat and Income Tax Payable (continued)

20.2 Components of the zakat base

The significant components of the Company's zakat base according to the regulations of the General Authority of Zakat and Tax are principally as follows:

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Adjusted Shareholders' equity at the beginning of the year	1,553,966	1,522,524
Provisions at the beginning of the year	404,558	16,343
Adjusted net profit for the year (note 20.1)	129,029	32,310
Deductions	<u>(1,962,490)</u>	<u>(1,249,040)</u>
Approximate zakat base	<u>125,063</u>	<u>322,137</u>

Zakat is payable at 2.5% of the higher of the zakat base and adjusted net profit.

20.3 Provision for zakat and income tax

Movement in the Company's provision for zakat

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
January 1	8,472	7,841
Provision – current year	10,150	7,520
Payments	<u>(9,309)</u>	<u>(6,889)</u>
December 31	<u>9,313</u>	<u>8,472</u>

Movement in the subsidiaries' provision for zakat and income tax

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
January 1	21,307	21,960
Provision – current year	23,051	25,283
Payments	<u>(19,464)</u>	<u>(25,936)</u>
December 31	<u>24,894</u>	<u>21,307</u>

Overall movement in the provision for zakat and income tax

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
January 1	29,779	29,801
Provision – current year	33,201	32,803
Payments	<u>(28,773)</u>	<u>(32,825)</u>
December 31	<u>34,207</u>	<u>29,779</u>



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20. Zakat and Income Tax Payable (continued)

20.4 Status of final assessments

The Company, SITCO Pharma, CCCIL, AJA Pharma and SCCL have filed their zakat declarations and obtained zakat certificates for the years up to 2019.

During the year, The Company obtained the final zakat assessments for the years 2014 to 2018 from the General Authority of Zakat and Tax, which resulted in an additional amount of SR 10,227,611, and are being contested by the Company in accordance with the relevant procedures.

During the year ended December 31, 2019, SITCO and CCCIL obtained the final zakat assessments for years up to 2017 from the General Authority of Zakat and Tax.

21. Revenues

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Sale of goods	3,392,141	2,984,944
Rendering of services	5,810	8,639
Discounts	(91,791)	(44,415)
	<u>3,306,160</u>	<u>2,949,168</u>

22. Selling and Marketing Expenses

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Salaries, wages and other benefits	98,649	97,199
Freight and transportation	20,045	19,742
Depreciation (note 7)	8,059	6,491
Insurance	5,468	4,879
Rent	4,590	3,412
Utilities	2,836	3,009
Trips and accommodation	2,637	4,651
Amortisation of intangible assets	2,500	1,000
Registration and subscription fees	2,359	1,355
Depreciation of right-of-use assets	477	463
Samples	433	1,480
Exhibitions and conferences	424	2,559
Advertising and promotional activities	59	1,033
Others	6,798	5,576
	<u>155,334</u>	<u>152,849</u>



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23. General and Administrative Expenses

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Salaries, wages and other benefits	73,089	82,966
Lawsuits	20,829	-
Depreciation (note 7)	11,536	12,005
Professional and legal fees	5,728	4,211
Charges for letters of credit and guarantee and others	4,978	7,225
Impairment of advances to suppliers	4,377	1,143
Board of Directors' remuneration (note 11)	4,097	3,664
Registration and subscription fees	3,355	4,174
Utilities	2,230	1,937
Rent	1,404	1,515
Depreciation of right-of-use assets	1,345	876
Repairs and maintenance	1,325	1,979
Insurance	1,240	1,425
Amortisation of intangible assets	1,117	1,803
Trips and accommodation	809	4,275
Others	3,308	6,950
	<u>140,767</u>	<u>136,148</u>

24. Finance Costs

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Finance costs on SIDF's financing	3,803	5,765
Finance costs on lease liabilities (note 8)	497	478
Finance costs on employees' defined benefit obligation (note 18.1)	1,385	2,477
Finance costs on short-term Islamic financing	40,779	52,507
	<u>46,464</u>	<u>61,227</u>
Less: Finance costs included in the costs of qualifying assets (note 7)	(4,761)	(4,172)
	<u>41,703</u>	<u>57,055</u>

25. Other Income (Expenses), Net

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Loss on disposal of property, plant and equipment	(471)	(4,514)
Foreign exchange (loss) gain	(220)	1,475
Property, plant and equipment write off	(45)	-
Other income	918	1,843
	<u>182</u>	<u>(1,196)</u>



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26. Basic and Diluted Earnings Per Share

Earnings per share is computed based on net profit for the year attributable to Shareholders and the weighted average number of shares outstanding during the year. The diluted earnings per share is the same as the basic earnings per share as the Group does not have any issued dilutive instruments.

	<u>2020</u>	<u>2019</u>
Net profit for the year attributable to Shareholders of the Company (SR '000)	74,026	32,877
Weighted average number of shares (Thousands)	84,320	84,320
Basic and diluted earnings per share (SR)	0.88	0.39

27. Categories of Financial Assets and Financial Liabilities

The following represents the categories of the financial assets and financial liabilities included in the consolidated statement of financial position:

	<u>2020</u>	<u>2019</u>
	<u>SR '000</u>	<u>SR '000</u>
Financial assets at amortised cost:		
Trade receivables	1,687,627	1,988,185
Other assets	35,990	30,077
Cash and cash equivalents	150,326	91,830
Total financial assets at amortised cost	<u>1,873,943</u>	<u>2,110,092</u>
Financial liabilities at amortised cost:		
Saudi Industrial Development Fund's financing	319,499	110,541
Lease liabilities	10,335	9,928
Short-term Islamic financing	1,399,658	1,311,644
Trade payables	1,236,123	1,476,399
Unpaid dividends	13,308	13,308
Accrued expenses and other liabilities *	77,540	31,496
Total financial liabilities at amortised cost	<u>3,056,463</u>	<u>2,953,316</u>

*Except for unearned commissions and advances from customers.

The Group did not provide fair value disclosures, as the book value of the financial assets and liabilities is a reasonable approximation of the fair value.

28. Contingent Liabilities and Commitments

28.1 Contingent liabilities

As at December 31, 2020, the Group had outstanding letters of guarantee amounting to SR 267 million (December 31, 2019: SR 221 million), issued in the normal course of business of the Group.

SINCO has filed an objection against an inspection claim by the Egyptian tax authorities relating to salary taxes for the years 2006 to 2012 amounting to EGP 8,263,006 (approximately SR 1.8 million). The final outcome is uncertain, and no provision has been included in the standalone financial statements of SINCO or in these consolidated financial statements.



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28. Contingent Liabilities and Commitments (continued)

28.2 Commercial and capital commitments

As at December 31, 2020, the Group had outstanding letters of credit amounting to SR 311 million (December 31, 2019: SR 602 million) and capital commitments outstanding as at December 31, 2020 in respect of capital work in progress projects of SR 194 million (December 31, 2019: SR 355 million).

29. Segment Information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group evaluates segmental performance on the basis of profit or loss from operations. The Group's operations are principally in the following business segments: explosives, medicines and medical supplies and production of ammonium nitrate. Certain selected financial information for the above-mentioned business segments is summarized below. Except for the information related to the production of ammonium nitrate segment that is located in the Arab Republic of Egypt, all other information is related to the business segments in the Kingdom of Saudi Arabia.

	Explosives <u>SR'000</u>	Medicines and medical supplies <u>SR'000</u>	Production of ammonium nitrate <u>SR'000</u>	Total <u>SR'000</u>
Balances as at 31 December 2020				
Segment assets	1,261,897	3,533,254	87,668	4,882,819
Segment liabilities	574,785	2,668,764	1,775	3,245,324
Balances as at 31 December 2019				
Segment assets	988,527	3,589,139	91,848	4,669,514
Segment liabilities	293,622	2,813,087	2,744	3,109,453



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29. Segment Information (continued)

	Explosives SR'000	Medicines and medical supplies SR'000	Production of ammonium nitrate SR'000	Total SR'000
For the year ended 31 December 2020				
External revenues	275,371	3,056,489	60,981	3,392,841
Intersegment revenues	-	(38,085)	(48,596)	(86,681)
Net revenue	275,371	3,018,404	12,385	3,306,160
Amortisation	(48)	(3,569)	-	(3,617)
Depreciation	(11,100)	(24,691)	(4,971)	(40,762)
Depreciation of right-of-use assets	(664)	(1,508)	-	(2,172)
Impairment of trade receivables	(9,649)	(3,640)	-	(13,289)
Other expenses	(224,592)	(2,935,881)	(8,413)	(3,168,886)
Segment comprehensive income	29,318	49,115	(999)	77,434
For the year ended 31 December 2019				
External revenues	267,711	2,688,677	74,683	3,031,071
Intersegment revenues	-	(25,519)	(56,384)	(81,903)
Net revenue	267,711	2,663,158	18,299	2,949,168
Amortisation	(4)	(2,799)	-	(2,803)
Depreciation	(11,891)	(19,104)	(4,939)	(35,934)
Depreciation of right-of-use assets	(663)	(1,023)	-	(1,686)
Impairment of trade receivables	(7,312)	(37,166)	-	(44,478)
Other expenses	(210,050)	(2,613,530)	(8,672)	(2,832,252)
Segment comprehensive income	37,791	(10,464)	4,688	32,015

30. Financial Instrument Risk

Risk management objectives and policies

The Group is subjected to various financial risks due to its activities including: Market risk (including commission rate risk and foreign currency risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Senior management is responsible for risk management. Financial instruments carried on the consolidated statement of financial position include trade receivables, other current assets, cash and cash equivalents, Saudi Industrial Development Fund's financing, lease liabilities, short-term Islamic financing, trade payables, unpaid dividends and other current liabilities.



30. Financial Instrument Risk (continued)

The most significant financial risks to which the Group is exposed are described below:

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: commission rate risk, foreign currency risk and other price risk such as equity price risk and commodity price risk. Financial instruments affected by market risk include loans and financings.

Commission rate risk

Commission rate risk is the exposure to the risk associated with the effect of fluctuations in the prevailing commission rates on the Group's financial position and cash flows. The Group is not exposed to a significant commission rate risk.

Management of the Group does not enter into future agreements to hedge its commission rate risk. However, this is monitored on a regular basis and corrective measures initiated wherever required. All of the financings are on Saudi Interbank Offered Rate ("SIBOR") and fixed commission rates. Because the changes in SIBOR are not significant, commission rate sensitivity analysis has not been disclosed.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Group operates locally and internationally and has some transactions that are in US Dollars and Euros. However, the Group has a limited exposure to foreign currency risk since the Group signs most of its contracts with foreign companies in Saudi Riyals. The Group's management monitors the foreign currency exchange rates fluctuations and believes that the Group's exposure to currency risk is not significant.

Management of the Group does not enter into future agreements to hedge its foreign currency risk. However, this is monitored on a regular basis and corrective measures initiated wherever required.

Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group is not exposed to a significant price risk.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit risk results mainly from its transactions with the Ministry of Health and other ministries and other government medical institutions, and certain high profile Saudi Arabian companies. The ministries and other government medical institutions are part of the Government of the Kingdom of Saudi Arabia, which has a strong credit rating in the Saudi market. The high profile Saudi Arabian companies also have a high credit rating in the Saudi market. The maximum exposure to credit risk associated with the Group's financial instruments is limited to the book values included in the consolidated statement of financial position of those respective financial instruments.

The Group's management follows-up outstanding balances, and where appropriate, trade receivables are carried net of an allowance for credit loss. Cash is placed at banks with sound credit ratings.



30. Financial Instrument Risk (continued)

Concentration of credit risk

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

In order to avoid excessive concentrations risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of committed credit facilities. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.



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30. Financial Instrument Risk (continued)

The table below summarizes the maturities of the Group's undiscounted contractual obligations relating to financial liabilities:

	Less than one year SR'000	More than one year less than five years SR'000	More than five years SR'000	Total SR'000
2020				
Saudi Industrial Development Fund's financing	20,600	158,900	161,200	340,700
Short-term Islamic financing	1,399,658	-	-	1,399,658
Trade payables	1,236,123	-	-	1,236,123
Unpaid dividends	13,308	-	-	13,308
Accrued expenses and other liabilities *	77,540	-	-	77,540
Total	2,747,229	158,900	161,200	3,067,329
2019				
Saudi Industrial Development Fund's financing	10,000	70,000	38,559	118,559
Short-term Islamic financing	1,311,644	-	-	1,311,644
Trade payables	1,476,399	-	-	1,476,399
Unpaid dividends	13,308	-	-	13,308
Accrued expenses and other liabilities *	31,496	-	-	31,496
Total	2,842,847	70,000	38,559	2,951,406

*Except for unearned commissions and advances from customers.



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31. Subsequent Events

The management of the Group believes that no significant events have occurred subsequent to the year-end that may require adjustment to or disclosure in these consolidated financial statements.

32. Comparative Figures

Some comparative figures have been reclassified to conform to the current year's presentation.

33. Approval of the Consolidated Financial Statements

These consolidated financial statements have been approved by the Board of Directors of the Company on Sha'ban 14, 1442 H corresponding to March 27, 2021G.

