Saudi Ceramic Company
(Saudi Joint Stock Company)
Riyadh - Kingdom of Saudi Arabia

Consolidated financial statements and independent auditor's report
For the year ended December 31, 2022

Saudi Ceramic Company
(Saudi Joint Stock Company)

Consolidated financial statements and Independent Auditor's Report
For the year ended December 31, 2022

RSM Allied Accountants Professional Services Co.

Riyadh - Olaya District - Al Oruba Street
1st Floor, Building No. 3193
P.O. Box 8335, Riyadh - 12333
Tel.: +966 11 416 9361
Fax: +966 11 416 9349
Kingdom of Saudi Arabia
www.rsmksa.com
C.R : 4030228773

شركة ار اس ام المحاسبون المتحدون للإستشارات المهنية

الرياض – حي العليا - طريق العروبة
مبنى رقم ٣١٩٣ ، الطابق الأول
ص. ب ٨٣٣٥ ، الرياض - ١٢٣٣٣
هاتف: ٩٣٦١ ٤١٦ ١١ ٩٦٦+
فاكس: ٩٣٤٩ ٤١٦ ١١ ٩٦٦+
المملكة العربية السعودية
www.rsmksa.com
س.ت ٤٠٣٠٢٢٨٧٧٣

Independent Auditor's Report

To the shareholders of
Saudi Ceramic Company
(Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the consolidated financial statements of Saudi Ceramic Company (A Saudi joint Stock Company) (the "Company") and its subsidiaries (together the "Group"), which includes the consolidated statement of financial position as at December 31, 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended, and the 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, 2022, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the international Financial Reporting Standards that are endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants.

Basis of opinion

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

Other Matter

The group's consolidated financial statements for the comparative year ended 31 December 2021 were audited by another auditor, who expressed an unmodified opinion on those consolidated financial statements on 16 Rajab 1443 (corresponding to 17 February 2022).

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 for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report (continued)

To the shareholders of
Saudi Ceramic Company
(Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Key Audit matters (continued)

Key Audit matters as follows:

Key Audit Matter	How the matter was addressed during our audit
Inventory Valuation, obsolete and slow-moving As of December 31, 2022, the Group has inventories amounting to SR 957.4 million (2021: SR 731.4 million) net after provision for obsolescence and slow-moving inventory for an amount of SR 46.4 million (2021: SR 48.5 million). Inventories are stated at the lower of cost and net realizable value. Management assesses the allowance needed for slow-moving inventories considering the nature and useful life of inventories. Also, management writes down the inventory cost where ever needed to bring the inventory value in line with the realizable value. We considered this to be a key audit matter due to significant judgments and assumptions used by management when determining the extent of the need to establish a provision for damaged, slow-moving and obsolete inventory and the level of inventory reduction required based on the assessment of net realizable value. Please refer to note No. (4) of the accounting policy and note No. (9) for the related disclosures about the consolidated financial statements.	**We have done the following procedures among others:** • Evaluate the management policy for the Group related to recording the obsolete and slow-moving inventory. • Attending the physical inventory count at the year-end and assessing the adequacy of controls over the existence of inventory. • Testing the accuracy of the inventory aging report used by the management in its evaluation of the obsolete and slow-moving inventory provision. • Considering the appropriateness of the allowance for damaged, slow-moving, and obsolete as per the Group policies and the inventory aging report. • Comparing the net realizable value with the moving average cost and provision recorded by the management to conclude whether the inventory is recorded at the lower of cost or net realizable value. • Testing the net realizable value of finished goods inventories by considering the assumptions used by the management to check whether inventories are valued at the lower of cost or net realizable value.

Independent Auditor's Report (continued)

To the shareholders of
Saudi Ceramic Company
(Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Other information
Other information includes the information included in the Group's annual report, other than the consolidated financial statement and our auditor's report thereon. Management is responsible for other information in the Group's annual report which is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

With regard to our audit of the consolidated financial statements, it is our responsibility to read the other information identified above, and in doing so we consider whether the other information is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit or otherwise appears to be materially misstated. When we read the Group's annual report, if we conclude that there is a material misstatement of this other information, then we are required to report on this fact to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standard as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements as endorsed by the Saudi Organization for Chartered and Professional Accountants and in accordance with the companies' regulation and Company's by-laws and for such internal control as management determines is necessary to enable to 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 evaluating the Group's ability to continue as a going concern, where appropriate, disclosing matters relating to going concern and the use of the going concern basis of accounting unless management intends to liquidate the Group or cease operations or have no realistic alternative but to do so.
Those charged with governance, the board of directors, are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue 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 to International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- 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 obtains audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as a fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report (continued)

To the shareholders of
Saudi Ceramic Company
(Saudi Joint Stock Company)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control for the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the 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 going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentations, 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 appropriated evidence regarding the financial information of the entities or business activities with the Group to express an opinion on the consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. we remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement stating that we have complied with the relevant ethical requirements relating to independence, and informing them of all relationships and other matters that may reasonably be believed to affect our independence, and also informing them, where applicable, related safeguards.

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

RSM Allied Accountants Professional Service Company

Mohammed bin Farhan bin Nader
License 435
Riyadh, Kingdom of Saudi Arabia
Shaaban 6, 1444AH (February 26, 2023)

شركة ار اس ام المحاسبون المتحدون للاستشارات المهنية
س.ت: ٤٠٣٠٢٢٨٧٧٣
C.R. 4030228773
RSM Allied Accountants Professional Services Co.

Saudi Ceramic Company
(Saudi Joint Stock Company)

Consolidated statement of financial position
As at December 31, 2022
(In Saudi Riyals Thousand unless otherwise stated)

	Note	2022	2021
Assets			
Non-current assets			
Property, plant and equipment, net	5	1,611,045	1,640,698
Right of use assets, net	6	87,532	71,567
Investment in associate	7	9,054	9,011
Financial assets at fair value through OCI	8	7,421	7,987
Total non-current assets		1,715,052	1,729,263
Current assets			
Inventory, net	9	957,439	731,481
Accounts receivable, net, prepaid expenses, and other assets	10	311,184	293,479
Cash and cash equivalents	11	70,693	109,646
Derivative financial instruments through Profit and Loss	12	6,647	-
Total current assets		1,345,963	1,134,606
Total assets		3,061,015	2,863,869
Equity and liabilities			
Equity			
Share capital	13	800,000	800,000
Statutory reserve	14	241,715	241,715
Fair value reserve	15	3,196	3,762
Treasury shares	16	(2,663)	(3,870)
Retained earnings		707,454	630,112
Total equity attributable to the shareholders		1,749,702	1,671,719
Non-controlling interest		36,770	40,383
Total equity		1,786,472	1,712,102
Liabilities			
Non-current liabilities			
Long-term loans, non-current portion	18.1	282,805	422,678
Lease obligations, non-current portion	6	68,712	52,216
Defined employees' benefit plan obligations	19	90,868	87,859
Total non-current liabilities		442,385	562,753
Current liabilities			
Short term loans	18.2	160,551	-
Long-term loans, current portion	18.1	211,938	234,841
Lease obligations, current portion	6	13,444	13,902
Accounts payable, accruals, and other liabilities	20	416,044	317,675
Zakat provision	21	30,181	22,596
Total current liabilities		832,158	589,014
Total liabilities		1,274,543	1,151,767
Total equity and liabilities		3,061,015	2,863,869

The accompanying notes from (1) to (35) form an integral part of these Consolidated financial statements

Abdulaziz Abdulkareem Alkhuraiji Vice Chairman of the Board	Majid Abdullah Alissa Chief Executive Officer	Waleed Al-Bassam Chief Financial Officer

Saudi Ceramic Company
(Saudi Joint Stock Company)

Consolidated statement of profit or loss and other comprehensive income
For the year ended December 31, 2022
(In Saudi Riyals Thousand unless otherwise stated)

	Note	2022	2021
Profit or loss			
Revenues, net	22	1,484,958	1,534,770
Cost of revenues	23	(1,032,616)	(1,006,509)
Gross profit		452,342	528,261
Selling and marketing expenses	24	(190,642)	(180,153)
General and administrative expenses	25	(74,913)	(90,949)
Provision for expected credit loss	10 -B	(2,037)	(2,883)
Net profit for the year from operations		184,750	254,276
Finance costs, net	26	(22,334)	(23,818)
Other Revenues, net	27	31,514	27,661
Group's share from associate's profit	7	440	444
Net profit for the year before zakat		194,370	258,563
Zakat	21	(24,115)	(26,784)
Net profit for the year		170,255	231,779
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent years			
Remeasurement gain/ (loss) on defined employees' benefit plan obligations	19	3,269	(892)
Equity instrument at FVOCI – net change in fair value		(566)	241
Total other comprehensive income for the year		2,703	(651)
Total comprehensive income for the Year		172,958	231,128
Basic and diluted earnings per share (SAR)	30	2.18	2.93
Net profit for the year attributed to:			
Parent company		173,920	233,792
Non-controlling interest	33	(3,665)	(2,013)
Total profit for the year		170,255	231,779
Comprehensive income for the year attributed to:			
Parent company		176,571	233,147
Non-controlling interest	33	(3,613)	(2,019)
Total comprehensive income for the year		172,958	231,128

The accompanying notes from (1) to (35) form an integral part of these Consolidated financial statements

Abdulaziz Abdulkareem Alkhuraiji	Majid Abdullah Alissa	Waleed Al-Bassam
Vice Chairman of the Board	Chief Executive Officer	Chief Financial Officer

Saudi Ceramic Company
(Saudi Joint Stock Company)

Consolidated statement of changes in equity
For the year ended December 31, 2022
(In Saudi Riyals Thousand unless otherwise stated)

	Share capital	Statutory reserve	Fair value reserve	Treasury shares	Retained earnings	Total equity attributable to the shareholders	Non-controlling interest	Total
For the year ended December 31, 2021								
Balance as of January 1, 2021	600,000	218,336	3,521	(11,008)	674,474	1.485.323	43.892	1.529.215
Net profit for the year	-	-	-	-	233,792	233.792	(2,013)	231.779
Other comprehensive Loss /(income)	-	-	241	-	(886)	(645)	(6)	(651)
Total comprehensive income /(loss) for the year	-	-	241	-	232,906	233,147	(2,019)	231.128
Acquisition of non-controlling interest	-	-	-	-	1,951	1,951	(2.951)	(1.000)
Adjustments related to subsidiary	-	-	-	-	4,131	4,131	1,461	5,592
Issuance of treasury shares	-	-	-	7,138	-	7,138	-	7,138
Issuance of bonus shares	200,000	-	-	-	(200,000)	-	-	-
Dividends paid	-	-	-	-	(59,971)	(59,971)	-	(59.971)
Transferred to statutory reserve	-	23,379	-	-	(23,379)	-	-	-
Balance as of December 31, 2021	800,000	241,715	3,762	(3,870)	630,112	1,671,719	40,383	1,712,102
For the year ended December 31, 2022								
Balance as of January 1, 2022	800,000	241,715	3,762	(3,870)	630,112	1,671,719	40,383	1,712,102
Net profit for the year	-	-	-	-	173,920	173,920	(3,665)	170,255
Other comprehensive income for the year	-	-	(566)	-	3,217	2,651	52	2,703
Total comprehensive income /(loss) for the year	-	-	(566)	-	177,137	176,571	(3,613)	172,958
Issuance of treasury shares	-	-	-	1,207	-	1,207	-	1,207
Dividend paid (note 17)	-	-	-	-	(99,795)	(99,795)	-	(99,795)
Balance as of December 31, 2022	800,000	241,715	3,196	(2,663)	707,454	1,749,702	36,770	1,786,472

The accompanying notes from (1) to (35) form an integral part of these Consolidated financial statements

Abdulaziz Abdulkareem Alkhuraiji Vice Chairman of the Board	Majid Abdullah Alissa Chief Executive Officer	Waleed Al-Bassam Chief Financial Officer

Saudi Ceramic Company
(Saudi Joint Stock Company)

Consolidated statement of cash flows
For the year ended December 31, 2022
(In Saudi Riyals Thousand unless otherwise stated)

	2022	2021
Cash flows from operating activities		
Net profit for the year before zakat	194,370	258,563
Adjustments to reconcile net profit for the year before zakat to net cash provided by operating activities		
Depreciation of property, plant, and equipment	116,506	115,797
Loss / (Gain) from the sale of property, plant, and equipment	1,045	(1,037)
Amortization of intangible assets	-	202
Depreciation of right of use assets	15,055	14,457
Provision charged for expected credit losses	2,037	2,883
Provision charged for damaged, obsolete, and slow-moving inventory	6,399	16,977
Reversal of Inventory Provision.	(1,417)	-
Finance costs	28,981	21,019
Defined employees' benefit plan obligations charged	12,174	12,368
Gain on derivative financial assets	(6,647)	-
Group's share from associate's profit	(440)	(444)
	368,063	440,785
Changes in operating assets and liabilities		
Accounts receivable, prepaid expenses, and other assets	(19,741)	28,748
Inventory	(230,940)	(90,763)
Account payable, accruals, and other liabilities	94,564	26,878
Defined employees' benefit plan obligations paid	(5,896)	(10,752)
Zakat paid	(16,530)	(32,189)
Net cash provided by operating activities	189,520	362,707
Cash flows generated from investment activities		
Additions to property, plant, and equipment	(88,410)	(135,919)
Proceeds from the sale of property, plant, and equipment	512	1,070
Acquisition of non-controlling interest	-	(1,000)
Dividends distributions received from associate	397	396
Net cash used in investment activities	(87,501)	(135,453)
Cash flows from financing activities		
Proceeds from short-term loans	160,551	-
Paid from short-term loans	-	(85,045)
Proceeds from Long-term loans	-	525,551
Paid from Long-term loans	(162,776)	(533,062)
Dividend paid	(99,795)	(59,971)
Disposal of treasury shares	1,207	7,138
Lease obligations paid	(18,549)	(16,244)
Financing costs paid	(21,610)	(24,664)
Net cash used in financing activities	(140,972)	(186,297)
Net change in cash and cash equivalents	(38,953)	40,957
Cash and cash equivalents at the beginning of the year	109,646	68,689
Cash and cash equivalents at the ending of the year	70,693	109,646
Non-cash transactions		
Additions to right of use assets	(31,020)	(10,528)
Re- measurement (gain) loss on defined employees' benefit plan obligation	(3,269)	892

The accompanying notes from (1) to (35) form an integral part of these Consolidated financial statements

Abdulaziz Abdulkareem Alkhuraiji Vice Chairman of the Board	Majid Abdullah Alissa Chief Executive Officer	Waleed Al-Bassam Chief Financial Officer

1 - Organization and Activities

A- Saudi Ceramic Company ("Company") is a Saudi joint stock company established by Royal Decree No. (M/16) on Rabi Thani 25, 1397AH (corresponding to April 14, 1977), registered in the Kingdom of Saudi Arabia under the Commercial Register No. 1010014590 issued in Riyadh in Safar 15, 1398 AH (corresponding to January 24, 1978).

The Company is engaged in the production and sale of ceramic products, water heaters and related components. The Company is also involved in the import of related machinery, equipment and other accessories.

B- The Company has obtained the following sub-commercial registration:

Register number	Commercial Register	Date of registration	Location
4032050268	Saudi Ceramic Company	11/07/1437	Taif
4030375051	Saudi Ceramic Company	26/05/1441	Jeddah
4031101336	Saudi Ceramic Company	29/01/1439	Mecca
4650026206	Saudi Ceramic Company	23/08/1418	Medina
2252023606	Saudi Ceramic Company	19/09/1415	Hafouf
2050132490	Saudi Ceramic Company	26/05/1441	Dammam
2050017836	Saudi Ceramic Company	16/08/1408	Dammam
2051032588	Saudi Ceramic Company	17/04/1427	Alkhobar
2055007583	Saudi Ceramic Company	09/05/1427	Jubail
2511116088	Saudi Ceramic Company	02/05/1441	Hafer Batin
2057473580	Saudi Ceramic Company	01/04/1441	Khafji
5950021703	Saudi Ceramic Company	26/04/1433	Najran
5900010926	Saudi Ceramic Company	21/06/1427	Jizan
5855018515	Saudi Ceramic Company	15/01/1425	Khamis mushait
4603152042	Saudi Ceramic Company	11/03/1442	AlQanfadah
5851876005	Saudi Ceramic Company	11/03/1442	Bisha
1010217307	Saudi Ceramic Company	20/02/1427	Shifa
5906332463	Saudi Ceramic Company	20/05/1441	Sabya
5860614456	Saudi Ceramic Company	23/07/1423	Mahail Asir
3350018888	Saudi Ceramic Company	03/02/1441	Hail
1128007072	Saudi Ceramic Company	19/03/1428	Unaizah
1132010819	Saudi Ceramic Company	16/06/1437	Ar Rass
3550007463	Saudi Ceramic Company	17/08/1408	Tabuk
1010216239	Saudi Ceramic Company	16/01/1427	Yasmin
1010217307	Saudi Ceramic Company	20/02/1427	Al Remal
1010216239	Saudi Ceramic Company	16/01/1427	Takasusi
1010623110	Saudi Ceramic Company	20/05/1441	Kharaj road
1010216239	Saudi Ceramic Company	16/01/1427	Narjis
1010217307	Saudi Ceramic Company	20/02/1427	Olya
1113101345	Saudi Ceramic Company	23/07/1423	Shaqrah
1111101021	Saudi Ceramic Company	03/02/1441	Mazahmia
1010217307	Saudi Ceramic Company	20/02/1427	Laban
1122102594	Saudi Ceramic Company	20/05/1441	Majmah
1010623110	Saudi Ceramic Company	20/05/1441	Khasm
1011143932	Saudi Ceramic Company	12/02/1442	Kharaj
1116624418	Saudi Ceramic Company	12/02/1442	Riyadh

1 - Organization and Activities (continued)

B- The Company has obtained the following sub-commercial registration (continued)

Register number	Commercial Register	Date of registration	Location
3350018888	Saudi Ceramic Company	24/01/1428	Hail
1128007072	Saudi Ceramic Company	19/03/1428	Unaizah
1131007399	Saudi Ceramic Company	16/11/1408	Buraidah-Khasm
1010632532	Saudi Ceramic Company	17/07/1441	Mahdiya
1010216239	Saudi Ceramic Company	16/01/1427	Rawdah

C- The Consolidated financial statements for the year ended December 31, 2022 include the activities of the parent company and the following subsidiaries (the Company and its subsidiaries hereinafter shall be referred to as the "Group").

The following are the details of the subsidiaries:

		Ownership percentage as at	
Subsidiary company	**Main operation**	**Dec 31, 2022**	**Dec 31, 2021**
Ceramic pipes Company	Import and export, wholesale and retail trading of clay pipes	**73.89%**	73.89%
Arzan Company *	Operation and maintenance	**100%**	100%
Ceramic Investment Company(CIC) **	Marketing services, wholesale and retail trading	**98.69%**	98.69%

* Arzan and Ceramic investment company have not start commercial operations until 31 Dec 2022.

** The ownership percentage of the Saudi Ceramic Company is represented in the Ceramic Investment Company "98.69%", and the ownership percentage consists of 95% directly and 3.694% indirectly, which is the percentage of ownership through the Ceramic Pipes Company.

D- The consolidated financial statements represent the assets, liabilities and operations' results for the main and sub-commercial registration, also including the assets and liabilities and operations' results for the subsidiaries, Ceramic pipes company (a closed joint stock company), Arzan company (a limited liability company), Ceramic investment company (a limited liability company), (the company and its subsidiaries hereinafter referred to as the "Group").

E- The company's headquarter is located at the following address:
Saudi Ceramic Company
Riyadh – Al-Olayya District – King Fahad Road
P.O 3893 Zip Code 11481
Kingdom of Saudi Arabia

2 - Basis of preparing consolidated financial statements

Statement of Compliance.

These consolidated financial statements of the Group have been prepared in accordance with the international Financial Reporting Standards endorsed in Kingdome of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional and Accountants.

Basis of consolidation financial statements

The accompanying consolidated financial statements include the financial statements of the company and its subsidiaries as set out in (note 1). A subsidiary is an entity controlled by the parent company. Control is achieved when the parent company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. To estimate control, the potential voting rights currently exercised are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control started.

The Company re-assesses whether it has control over an investee, if the facts and circumstances indicate any changes in one or more of the three control elements. The consolidation of the subsidiary begins from the date when the Company obtains control over the subsidiary and ceases when the Company loses its control over the subsidiary.

The assets, liabilities, revenues and expenses of a subsidiary acquired during the year are recognized in the consolidated Financial Statements from the date the Company obtains control until such control ceases to exist.

Changes in Company's ownership interests in any subsidiary that do not result in loss of control are treated as equity transactions.

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

Basis of measurement

These consolidated financial statements have been prepared according to the historical cost principle, going concern basis, and the accrual basis of accounting. Another basis is used if the International Financial Reporting Standards endorsed in the Kingdom of Saudi Arabia and the other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants require this, as indicated in the applicable accounting policies (note 4).

Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyal which is the functional currency of the Group and are rounded to the nearest Thousands Saudi riyals unless otherwise stated.

2 -Basis of preparing consolidated financial statements (Continued)

Significant accounting judgment, estimates, and assumptions.

Preparing consolidated financial statements in accordance with International Financial Reporting Standards endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements Supplementary to the International Standards endorsed by by the Saudi Organization for Chartered and Professional Accountants requires the use of some significant estimates, assumptions, and judgments that affect the amounts of assets and liabilities presented and the disclosure of potential assets and liabilities at the date of preparing the consolidated financial reports and the recorded amounts of revenues and expenses during the year of consolidated financial reports. Estimates, assumptions, and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The Group makes estimates, assumptions, and judgments regarding the future. The resulting accounting estimates seldom equal the actual results.

Areas with a higher degree of judgment or estimation or areas of relative importance where estimates and assumptions have significant implications for the Consolidated financial statements are as follows:

Useful life, residual value, and depreciation method of property, plant, and equipment.

The group management estimates the estimated useful life of property, plant, and equipment. This estimate is determined after considering the expected use of the asset or damage and the natural obsolescence. Management reviews the useful life, residual value, and depreciation method of property, plant, and equipment annually, whereby future depreciation is adjusted when management believes that the useful life, residual value, or depreciation method is different from that used in previous years.

Impairment of non-financial assets

The group management annually reviews the book value of non-financial assets to determine whether there is any indication that such assets may be subject to any impairment loss. If there is any indicator, the recoverable amount of assets is estimated to determine the extent of impairment loss. When it is not possible to estimate the recoverable amount of assets individually, the group estimates the recoverable amount of the cash-generating unit to which the assets belong. If the amount of recoverable assets is estimated to be below its book value, the book value of the asset decreased to its recoverable value, and the impairment loss is recognized in the Consolidated statement of profit or loss.

Impairment of inventory

Inventory is stated at the lower of cost or net realizable value. When inventory is old or obsolete, an estimate is made for net realizable value. This estimation is performed in respect of each significant amount on a reasonable basis. Amounts that are not considered material for each inventory item, but which are old or obsolete, are assessed collectively and a provision is formed for them depending on the type of inventory and the degree of obsolescence based on historical selling prices.

2 - Basis of preparing consolidated financial statements (continued)

Significant accounting judgment, estimates, and assumptions (continued)

Employee benefits

The costs of end-of-service plans for employees and the current value of end-of-service benefit obligations are determined by actuarial assessments. Actuarial assessments include assumptions that may differ from actual developments in the future. It includes determining the discount rate, future salary increases, mortality rate, and future increases in pensions. Due to the complexities involved in the valuation and its long-term nature, the defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on the date of the consolidated financial report.

Zakat

Zakat is accrued for and payable in accordance with the regulations of the General Authority of Zakat and Tax in the Kingdom of Saudi Arabia. Adjustments arising from final zakat assessments, if any, are recorded in the year in which such assessments are made.

3 - New standards and amendments to standards, interpretations and issued standards that have not yet been applied

3.1. New standards, amendments to standards and interpretations applied by the Group

The application of the following amendments to the current standards does not have any significant financial impact on the consolidated financial statements of the Group in the current year or previous years, and it is expected that they will not have a significant impact in future years:

- Amendments to IFRS 16 (Lease Contracts) regarding the effects of COVID-19.
- Amendment to IFRS 3 (Business Combination), IAS 16 (Property, Plant & Equipment) & IAS 37, (Provisions, contingent liabilities and assets)
- Amendments to International Financial Reporting Standard No. 16 and International Financial Reporting Standard No. 7 regarding the correction of interest rate measurement – Phase Two.

A number of new declarations are effective for annual periods beginning on or after January 1, 2023, with early application permitted. However, the Group did not implement early application of the new or amended standards in preparing these financial statements.

3.2. Standards issued but not yet effective

Standards / Interpretations	Description	Effective from periods beginning on or after the following date
Amendments to IAS 1 and IFRS 2 Practice Statement	Disclosure of accounting policies and the exercise of judgments regarding materiality	January 1, 2023
Amendments to IAS 8	Definition of accounting estimates	January 1, 2023
Amendments to IAS 12	Deferred tax relating to assets and liabilities arising from a single transaction	January 1, 2023

The Group is evaluating the effects of the above standards, amendments and interpretations on the Group's consolidated financial statements.

3 - Summary of significant accounting policies

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

Current versus non-current classification
The Group presents its assets and liabilities in the consolidated statement of financial position based on a current and non-current basis. The assets are considered as a current when its:

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

All other assets are classified as non-current.

All liabilities are considered as a current, when its:

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

All other liabilities are classified as non-current.

Property, plant and equipment
Property, plant, and equipment are stated at cost less any accumulated depreciation and any impairment losses. The cost includes expenses directly attributable to the acquisition of property, plant, and equipment. When parts of a property, plant and equipment have a different useful life, they are computed as a separate item (main component) of property, plant and equipment. Repair and maintenance expenses are considered as revenue expenses, while improvement expenses are considered capital expenditures. The depreciation is calculated on the basis of its estimated useful life using the straight-line method. The sold or disposed asset and its accumulated depreciation are removed from the accounting records at the date of sale or disposal.

The estimated useful life for the main items of these property, plant, and equipment is as follows:

Description	Useful life (years)	Description	Useful life (years)
Buildings	10-33.33	Furniture and fixtures	6.66-10
Machinery and equipment	20-30	Leasehold improvements	4 years or lease term which is lower
Vehicles	4-6.66	Spare parts	5-10

The useful life and depreciation method are reviewed yearly to ensure that the depreciation method and useful life are in line with the expected economic benefits from property, plant and equipment.

4 - Summary of significant accounting policies (continued)

Impairment of assets

At each reporting date, the carrying amount of assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of a potential impairment, the recoverable amount of an affected asset (or related group of assets) is estimated and compared to it carrying amount. If the estimated recoverable amount is less, the carrying amount is reduced to its estimated recoverable amount, and the impairment loss is recognized directly in the consolidated statement of profit or loss.

In case that the non-financial assets impairment loss is reversed except for goodwill, the carrying amount of the assets (or a group of related assets) is increased to the adjusted estimate of the recoverable amount, but not more than the amount that would have been determined had no impairment loss been recorded for the assets (or a group of related assets) in prior years, a reversal of an impairment loss is recognized immediately in the consolidated statement of profit or loss

Treasury Shares

Own equity instruments that are reacquired (treasury shares), for discharging obligations under the Employee Share Programme, are recognized at cost and presented as a deduction from equity and are adjusted for any transaction costs, dividends and gains or losses on sale of such shares. No gain or loss is recognized in the Consolidated statement of profit or loss and other comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in retained earnings.

Segmental Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's relevant Business Heads' which in the Group's case is to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available. Segment results that are reported to the Group's relevant Business Heads' include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Right of use assets and leases obligations

The Group has recognized new assets and liabilities for its operating leases for various types of contracts including land, buildings and showrooms. Each rental payment is apportioned between the liability and the finance cost. The finance cost is charged to the statement of profit or loss over the lease term so that a constant periodic rate of interest is achieved on the remaining balance of the liability for each period. The right to use the asset is amortized over the useful life of the asset or the lease term, whichever is shorter, on a straight-line basis.

Right of use assets, is initially recognized:

- The initial measurement amount of the lease obligation that is the present value of future lease payments;
- Any lease payments made on or before the starting date of the lease contract minus any lease incentives received;
- Any initial direct costs incurred by the Group as a lessee;
- An estimate of the costs that the group will incur as a lessee to dismantle and remove the assets, and return the site where the asset is located to the original state.

The right-of-use asset is subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses adjusted for any re-measurement of the lease obligation.

The Group depreciates the right-of-use asset over the estimated term of the lease on a straight-line basis.

The lease liability is subsequently measured as follows:
- Increasing the carrying amount to reflect the interest on the lease obligation;
- Reducing the carrying amount to reflect rental payments;

4 - Summary of significant accounting policies (continued)
Right of use assets and leases obligations (continued)

- Re-measure the carrying amount to reflect any revaluation or amendments to the lease agreement.

The Group separates the amounts paid into the original portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

In accordance with International Financial Reporting Standard No. (16), "right-to-use assets" are tested for impairment in accordance with International Accounting Standard No. 36 "Impairment of Assets".

Lease term

The Group defines the lease term as the irrevocable period in the lease agreement along with:
- the periods covered by the option to extend the lease contract if the Group is reasonably certain that it will exercise that option;
- The periods covered by the option to terminate the lease agreement if the Group is reasonably certain that it will not exercise this option.

With regard to short-term leases (lease term of 12 months or less) and low-value contracts, the Group recognize the rental expense on a straight-line basis as permitted in IFRS 16, which is the same method that was accounted for in accordance with the Accounting Standard International No. (17) "Lease Contracts".

Investments in an associate

An associate is an entity over which the group exerts significant influence and is not a subsidiary or joint venture. The investment in the associate is accounted for under the equity method, whereby the investment in the associate is recognized in the consolidated statement of financial position at cost adjusted for changes in the group's share of net assets of the associate, less any impairment in value. Any reversal of an impairment loss is recognized within the range in which the recoverable amount of the investment subsequently increases. When the group reduces its ownership interest in an associate but continues to use the equity method, it reclassifies it to the Consolidated statement of profit or loss.

Financial instruments

Recognition and de-recognition

Financial assets and financial liabilities are recognized when the group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset have expired, or when the financial asset and all the risks and rewards have been materially transferred.

A financial liability is derecognized when it is amortized, disposed, canceled or expired.

Classification and Initial measurement of financial assets

All financial assets are initially measured at fair value adjusted for transaction costs (if any).
Financial assets – other than those designated and effective as hedging instruments – are classified into the following categories:

- Amortized cost.
- Fair value through profit or loss.
- Fair value through other comprehensive income.

4 - Summary of significant accounting policies (continued)

Classification and Initial measurement of financial assets (continued)

The classification category is determined by:

- The group's business model for managing financial assets.
- Characteristics of the contractual cash flow of financial assets.

All income and expenses related to financial assets recognized in the Consolidated statement of profit or loss are presented in finance income, finance cost or other financial items.

Subsequent measurement of financial assets

Financial assets at the amortized cost
Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- They are maintained within a business model that aims to maintain financial assets and collect their contractual cash flows.
- The contractual terms of the financial assets result in cash flows limited to payments of principal and interest due to the amount of principal outstanding.

This category includes non-derivative financial assets such as loans and receivables with fixed or determinable payments that are not quoted in an active market. After initial recognition, they are measured at amortized cost using the effective interest rate method. A discount is eliminated when the effect of the discount is not significant. Balances at banks and debtors fall into this category of financial instruments.

Financial assets at fair value through profit or loss
Financial assets that are held within a different business model other than "hold for collection" or "hold for collection and sale" and financial assets whose contractual cash flows are not limited to principal payments and accrued interest are measured at FVTPL.

The fair value of financial assets in this category is determined by reference to an active market transaction or by using a valuation technique when there is no active market

Financial assets at fair value through other comprehensive income
The group calculates financial assets at fair value through other comprehensive income if the assets fulfill the following conditions:

- It is held within a business model that aims to conserve in order to collect and sell associated cash flows.
- That the contractual terms of the financial assets result in cash flows limited to payments of principal and interest due on the amount of principal non-outstanding debt.

Gains or losses recognized in other Consolidated comprehensive income will be transferred when the asset is derecognized.

Impairment of financial assets
The new impairment requirements of IFRS 9 use more forward-looking information to recognize the Expected Credit Loss (ECL) model.

Recognition of credit losses no longer depends on the Group's initial determination of a credit loss event. Instead, the group considers more extent for the range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, and reasonable and supportive forecasts that affect the expected collectability of the future cash flows of the instrument.

When applying this prospective approach, a distinction is made between:

- Financial instruments not had a significant credit quality deterioration since initial recognition, or that have low credit risk (level 1).
- Financial instruments whose credit quality has significantly decreased since initial recognition and whose credit risk is not low (level 2).

4 - Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

- level 3 covers financial assets that have objective evidence of impairment at the Consolidated reporting date. However, none of the company's assets fall into this category.

"12 months of expected credit losses" are recognized for the first category while "lifetime ECLs" are recognized for the second category.

The ECL is determined by estimating the likely probability of credit losses over the expected life of the financial instrument.

The group recognizes a 12-month expected credit loss for financial assets measured at FVOCI (if any). Since most of these instruments have good credit rating, the probability of their neutrality is low. However, at each reporting date, the group evaluates whether there has been a significant increase in the credit risk of the instrument.

Disposal of financial assets

The group dispose the financial assets only when the contractual rights to cash flows from the assets expire or it transfers the financial assets and the risks and rewards of ownership to another party. If the group does not transfer or retain substantially all the risks and rewards of ownership of the assets, then the Group continues to recognize its share in the assets and liabilities associated with the financial assets to the amounts that it may have to pay.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency exchange rate exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The change in the fair value of a hedging instrument is recognised in the statement of profit or loss by netting it from the finance cost. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

Financial liabilities

Financial liabilities are classified either at amortized cost or at fair value through profit or loss. All financial liabilities of the group have been classified and measured at amortized cost using the effective interest method. The group has no financial liabilities at fair value through Consolidated statement of profit or loss.

Inventory

Inventory is recorded at cost or net realizable value, whichever is the lower. Cost is determined using the weighted average method. The cost of inventory comprises all costs of purchases, costs of conversion and other cost incurred in the bringing the inventory to their present location and conditions. In the case of finished production and in-progress inventory, cost includes the appropriate share of production overheads based on normal operating capacity.
Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Account receivables

Account receivables are amounts due from customers for products sold in the ordinary course of business. Account receivables are initially recognized at fair value less provision for expected credit loss in value, which is recognized in the Consolidated statement of profit or loss.

4 - Summary of significant accounting policies (Continued)

Cash and cash equivalents

Cash and cash equivalents include bank balances, cheques in hand and running deposits under profit accounts. It also includes bank overdrafts as per Group's cash management strategy and they are likely to fluctuate from overdrawn to positive balances

Related parties

A related party is a person or entity related to the Group, and a related person is if he has control or significant influence over the Group or is a member of the main management, and the entity is related if the entity is a member of the same group as a parent company, subsidiary, associate or related company joint venture, or both entities are joint ventures of a third party. Transaction with related parties transfer of resources, services, or obligations between the company and the related party, regardless of whether the price is charged. Key management personnel are the authorized and responsible persons for planning and management, and they have direct or indirect control over the operations of the group, including the managers.

Loans

Loans are recognized initially at fair value (represented in proceeds received) after deducting transaction costs incurred, if existed. After the initial recognition, loans are recognized at amortized cost using effective interest rate method. Any differences between the proceeds (after deducting transaction costs) and recoverable amount are recognized as profit or loss on the loan term using effective interest rate method.

Loans are classified as current liabilities as long as the group does not have a provisional right to delay settling the obligation for a year not less than 12 months after the report date.

Borrowing costs

All borrowing costs are recognized as an expense in the statement of profit or loss in the year in which they are incurred

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

Employees' benefits

End of service benefits

The end of service benefits provision is determined using the projected unit credit method, actuarial valuations being carried out at the end of annual reporting year. Remeasurements, comprising actuarial gains and losses, are recorded in the Consolidated statement of financial position with charge of expenses and credit amounts in the Consolidated statement of other comprehensive income in the year in which they occur. Remeasurements recognized in the Consolidated statement of other comprehensive income are recorded immediately in retained earnings and will not be reclassified to the Consolidated statement of profit or loss.

Retirement benefits

The group pays retirement contributions for its Saudi employees to the General Organization for Social Insurance. This represents a defined contribution plan. The payments made are expensed as incurred.

Short-term employee's benefits

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

4 - Summary of significant accounting policies (Continued)

Provisions

Provisions must be recognized when the group has a present obligation (legal or implicit) as a result of a past event, and it is probable that it will require an outflow of resources with economic benefits to settle this obligation, and that an estimate of the amount of the obligation can be made in a reliable manner.

When recovery is expected (by a third party) for some or all of the expenditure required to settle a provision (e.g. through an insurance contract), The recovered amount is recognized only when it is certain that the recovered amount will be received if the entity settles the obligation, and this recovered amount is recognized as a separate asset. The expense relating to the provision is presented in the consolidated statement of profit or loss, net of the amount recovered.

Account payables and accruals

liabilities are recognized against amounts to be paid in the future for the goods or services received, whether or not they are provided with invoices by suppliers.

Accrued dividends

Dividend distribution to the Group's shareholders is recorded as a liability when the dividends are approved. According to the Companies Law in the Kingdom of Saudi Arabia, distributions are approved upon approval by the shareholders or authorization from the shareholders to the Board of Directors to distribute dividends to the shareholders of the company on a semi-annual or quarterly basis according to a decision of the Ordinary General Assembly and renewed annually considering to the Group's financial position and cash flows. The corresponding amount is deducted directly from shareholders' equity.

Zakat provision

Estimated zakat is an obligation on the Group and it is recorded in the Consolidated financial statements by charging it to the Consolidated statement of profit or loss in accordance with the standard of zakat and the opinion issued by the Saudi Organization for Chartered and Professional Accountants, where it is calculated for the year in estimation according to the accrual basis.

Zakat is computed at the end of the year on the basis of the adjusted net income or the Zakat base, whichever is greater, according to the regulations of the Zakat, Tax, and Customs Authority in the Kingdom of Saudi Arabia.

Differences between the provision and the final assessment are recorded in the year in which the assessment is received.

Withholding tax

The group collects taxes on transactions for services with non-resident parties in the Kingdom of Saudi Arabia and on dividends paid to non-resident shareholders in accordance with the regulations of the Zakat, tax and customs Authority in the Kingdom of Saudi Arabia

Value added Tax

Value-added tax has been applied in the Kingdom of Saudi Arabia, starting from January 1, 2018 (Rabi` al-Thani 14, 1439 AH). It is a tax on the supply of goods and services that the final consumer ultimately bears but is collected at every stage of the production and distribution chain as a general principle, therefore; the value-added tax treatment in the Group's accounts must reflect its role as a tax collector, and VAT should not be included in income or expenditures, whether of a capital or revenue nature. However, there will be circumstances in which the group will bear VAT, and in such cases where the VAT is not refundable, it must be included in the cost of the product or service

4 - Summary of significant accounting policies (continued)

Revenue recognition

Revenue is measured based on 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. The principles in IFRS 15 are applied using the following five steps:

1- Defining the contract with the customer: A contract is defined as an agreement between two or more parties that creates enforceable rights or obligations and defines the criteria that must be met.

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

3- Determining the transaction price: the transaction price is the amount of consideration that the group expects to achieve in return for transferring the promised goods or services to the customer, excluding the amounts collected

4- Allocate transaction price to performance obligations in the contract: For a contract that contains more than one performance obligation, the group will allocate the transaction price to each performance obligation in an amount that specifies the amount of consideration that the group makes, specifying the amount of consideration that the group expects to receive in exchange for fulfillment with all commitment.

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

Revenue is recognized when the performance obligations are fulfilled and that is when the goods or service is provided to the customer. Performance commitment is a promise to provide service to the customer. Upon fulfillment of performance obligations, revenue is recorded at the fair value of the benefit provided, and any amounts collected on behalf of any external parties and any price discounts are excluded from the service price.

Revenue from contracts with customers is recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which the group expects to be entitled in exchange for those goods or services net of returns, trade discounts and volume rebates.

Revenue is recognized in the Consolidated Statement of Profit or Loss when a performance obligation is satisfied, at the price allocated to that performance obligation. This is defined as the point in time when control of the products has been transferred to the customer.

Goods are sold to customer with a right to return the goods within a specified period. The company uses the expected value method to estimate the goods that will not be returned. For goods that are expected to be returned.

The Company recognizes a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

The Company provides volume discount to certain customers once the quantity of products purchased during the agreed period exceeds a threshold specified in the contract.

Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts.

Accumulated experience is used to estimate and provide for the expected value of discounts and No significant element of financing is deemed present as the sales are made either on cash or with a credit term of 90 days, which is consistent with the market practice.

Cost of revenue

All expenses are recognized on an accrual basis, and operating costs are recognized on a historical cost basis. Production costs and direct manufacturing expenses are classified as cost of sales. This includes raw materials, direct labor and other related indirect costs. Other costs such as selling costs are recorded as selling and marketing expenses, while all other remaining costs are shown as general and administrative expenses.

4 - Summary of significant accounting policies (continued)

Selling and marketing expenses

Selling and marketing expenses consist mainly of costs incurred in marketing and selling the group's products. All other expenses are classified as general and administrative expenses.

General and administrative expenses

General and administrative expenses consist of direct and indirect costs that are not related to cost of revenue. Expenses should be apportioned on a consistent basis between general and administrative expenses and cost of revenue – whenever necessary. These expenses mainly include employee costs, other benefits for employees, bonuses and allowances for the board of directors, maintenance fees, rental expenses, insurance, professional fees, and other.

Contingent Liability

A contingent liability is disclosed when the Group has a possible obligation as a result of past events, whose existence will be confirmed only by the occurrence or non-occurrence, of one or more uncertain future events not wholly within the control of the Group; or the Group has a present legal or constructive obligation that arises from past events, but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Segment information

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

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

Earnings per share

Basic earnings per share is calculated from net profit by dividing the net profit for the year by the weighted average number of shares outstanding at the end of the year.

Foreign currency transactions

Transactions in foreign currencies are translated into Saudi Riyals at the exchange rates prevailing at the time of the transaction. Monetary assets and liabilities in foreign currencies as of the date of the Consolidated statement of financial position are converted into Saudi riyals at the rates prevailing at the end of the period. Gains and losses arising from repayments or foreign currency exchange are included in the Consolidated statement of profit or loss.

(In Saudi Riyals Thousand unless otherwise stated)

5. Property, plant and equipment

A- Property, plant and equipment as follow:

2022	Land	Buildings	Machinery and equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Assets under construction	Spare Parts	Total
Cost									
Balance, beginning of the year	326,663	1,007,205	2,513,452	98,555	100,707	37,801	98,700	40,914	4,223,997
Additions	-	428	6,183	4,131	7,582	-	59,213	10,873	88,410
Transfers during the year	-	19,878	35,682	1,790	-	7,095	(64,445)	-	-
Disposals	-	(12)	(54,358)	(145)	(13,177)	(674)	-	-	(68,366)
Balance, end of the year	326,663	1,027,499	2,500,959	104,331	95,112	44,222	93,468	51,787	4,244,041
Accumulated Depreciation									
Balance, beginning of the year	-	646,800	1,708,065	81,665	93,023	27,814	-	25,932	2,583,299
Charge for the year	-	32,187	68,296	5,248	2,831	4,412	-	3,532	116,506
Disposals	-	(12)	(52,931)	(83)	(13,109)	(674)	-	-	(66,809)
Balance, ending of the year	-	678,975	1,723,430	86,830	82,745	31,552	-	29,464	2,632,996
Net book value									
As at 31 December 2022	326,663	348,524	777,529	17,501	12,367	12,670	93,468	22,323	1,611,045

(In Saudi Riyals Thousand unless otherwise stated)

5. Property, plant and equipment (continued)

A- Property, plant and equipment as follow (continued):

2021	Land	Buildings	Machinery and equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Assets under construction	Spare Parts	Total
Cost									
Balance, beginning of the year	267,954	1,001,858	2,500,965	94,691	101,441	33,879	65,573	28,603	4,094,964
Additions	58,709	2,496	5,478	3,332	5,523	55	48,015	12,311	135,919
Transfers during the year	-	2,851	7,009	1,161	-	3,867	(14,888)	-	-
Disposals	-	-	-	(629)	(6,257)	-	-	-	(6,886)
Balance, end of the year	326,663	1,007,205	2,513,452	98,555	100,707	37,801	98,700	40,914	4,223,997
Accumulated Depreciation:									
Balance, beginning of the year	-	614,336	1,636,022	77,313	98,094	25,422	-	23,169	2,474,356
Charge for the year	-	32,464	72,043	4,981	1,154	2,392	-	2,763	115,797
Disposals	-	-	-	(629)	(6,225)	-	-	-	(6,854)
Balance, ending of the year	-	646,800	1,708,065	81,665	93,023	27,814	-	25,932	2,583,299
Net book value									
As at 31 December 2021	326,663	360,405	805,387	16,890	7,684	9,987	98,700	14,982	1,640,698

B- Building, Machinery and equipment pledged as security against borrowings from financial institutions at 31 December 2022, property, plant and equipment with carrying amount of SAR 1,126 million (31 December 2021: SAR 1,166 million) were pledged as security against the loans from Saudi Industrial Development Fund (SIDF), refer Note (18-B).

C- Assets under construction at year end includes certain assets that have been acquired but are not ready for their intended use. These assets are transferred to relevant assets categories and are depreciated once they are available for their intended use. Borrowing cost amounting to SAR 1.8 million has been capitalized to assets under construction (December 2021: SAR Nil).

D- Allocation of property, plant and equipment, net depreciation for the two years ended 31 December as follow:

	Note	2022	2021
Cost of sales	23	**101,668**	103,652
Selling and marketing expenses	24	**12,341**	9,065
General and administrative expenses	25	**2,497**	3,080
		116,506	115,797

(In Saudi Riyals Thousand unless otherwise stated)

6- Right of use assets, net and lease obligation

A- This item consists of the following:

	2022	2021
Cost		
Balance, beginning of the year	**113,039**	102,511
Additions during the year	**31,020**	10,528
Balance, end of the year	**144,059**	113,039
Accumulated Depreciation		
Balance, beginning of the year	**41,472**	27,015
Charge for the year	**15,055**	14,457
Balance, end of the year	**56,527**	41,472
Net Book Value	**87,532**	71,567

B- Allocation depreciation for the two years ended 31 December as follow:

	Note	2022	2021
Cost of sales	23	**2,330**	1,765
Selling and marketing expenses	24	**12,725**	12,644
General and administrative expenses	25	-	48
		15,055	14,457

C- Lease obligations

	2022	2021
Balance at 1 January	**66,118**	68,795
Additions to Lease Liabilities	**31,020**	10,529
Interest expense on lease liabilities	**3,567**	3,038
Lease liabilities paid	**(18,549)**	(16,244)
Balance at 31 December	**82,156**	66,118

D- The lease obligation classified as at December 31 as at the following:

	2022	2021
Within 1 year	**13,444**	13,902
1 year to 5 years	**59,092**	44,701
More than 5 years	**9,620**	7,515
Total lease obligation	**82,156**	66,118
Non-Current Portion	**68,712**	52,216
Current Portion	**13,444**	13,902

E- The right to use the asset is represented in the Group's lease contracts for showrooms, warehouses and factory related facilities.

F- The company has followed the policy of charging the financing cost to the statement of profit or loss over the lease period using the effective interest rate. The right to use the asset has been depreciated over the useful life of the asset or the lease period, whichever is shorter, on a straight-line basis.

(In Saudi Riyals Thousand unless otherwise stated)

7- Investment in an associate

7.1 The Group holds 15.87% of the share capital of Natural Gas Distribution Company (NGDC) "a Saudi Closed Joint Stock Company" registered in Riyadh, Kingdom of Saudi Arabia. The investment is accounted for using the equity method based on the Company having significant influence over the investee by representation on the board of directors. The Natural Gas Distribution Company is one of the Group's strategic suppliers and is principally engaged in the purchase and distribution of gas to the factories in the second industrial city in Riyadh.

The NGDC has share capital consisting solely of ordinary shares. The proportion of ownership interest is the same as the proportion of voting rights held.

During its meeting held on August 20, 2020, the extraordinary general assembly of NGDC agreed for the direct listing in the parallel market "Nomu". The approval of Capital Market Authority on the application for listing was issued on March 31, 2021.

7.2 The following is the movement on the book value of the investment in the associate:

	2022	2021
Investment as at 1 January	**9,011**	8,963
Share of net profit of associate	**440**	444
Dividends received	**(397)**	(396)
Investment as at 31 December	**9,054**	9,011

8- Financial assets at fair value through OCI

As permitted by IFRS 9, the Group has designated its equity investments at initial recognition at FVOCI and measured them at fair value. The fair valuation resulted in unrealized loss of SAR 565,539 for the year ended 31 December 2022 (2021: Gain of SAR 241,847) which is presented under "other comprehensive income" in statement of comprehensive income.

The following is the movement that has occurred on investment at fair value through profit or loss:

	2022	2021
Gulf Real Estate Company	**7,421**	7,987

- No dividends were received for these investments during the year ended on December 31, 2022 (2021: Nil).

9- Inventory, net

A- This item consists of the following

	2022	2021
Finished goods - A	**571,945**	434,844
Raw materials and consumables - A	**200,469**	132,685
Spare parts	**97,546**	93,535
Work in progress	**97,502**	80,239
Finished goods purchased for resale	**36,385**	38,704
	1,003,847	780,007
Less: provision for slow moving inventory - B	**(46,408)**	(48,526)
	957,439	731,481

(In Saudi Riyals Thousand unless otherwise stated)

9- Inventory, net (continued)`

A- Inventories written-off

Finished goods represents goods manufactured or purchased by the Group and are presented net of inventories written off during the year ended 31 December 2022 amounting to SAR 7.1 million (31 December 2021: SAR 8.9 million). Also, raw material inventories are presented net of inventories written off during the year ended 31 December 2022 amounting to Nil (31 December 2021: SAR Nil).

B- The movement in the provision for slow moving inventory is as follows:

	2022	2021
Balance at the beginning of the year	**48,526**	40,436
Charge for the year	**6,399**	16,977
No longer required	**(1,417)**	-
Written off during the year	**(7,100)**	(8,887)
Balance at the ending of the year	**46,408**	48,526

10- Account receivables, prepaid expenses and other assets

A- This item consists of the following:

	2022	2021
Account receivables	**260,860**	258,636
Less: provision for expected credit losses (B)	**(21,818)**	(26,957)
	239,042	231,679
Advance payment to suppliers	**53,857**	33,774
Prepaid expenses	**9,702**	16,670
Employees' receivables	**1,894**	2,219
Refundable deposits	**5,988**	829
Others	**701**	8,308
	311,184	293,479

B- The movement of provision for expected credit losses is as follows:

	2022	2021
Balance, beginning of the year	**26,957**	33,713
Charge for the year	**2,037**	2,883
Written off during the year	**(7,176)**	(9,639)
Balance, ending of the year	**21,818**	26,957

11- Cash on hand and at banks

	2022	**2021**
Cash at banks	**69,796**	109,116
Cash on hand	**897**	530
	70,693	109,646

(In Saudi Riyals Thousand unless otherwise stated)

12- Derivative financial instruments through Profit and Loss

	2022	2021
Foreign exchange forward contracts (Note 26)	**6,647**	-
	6,647	-

The Company entered in to the foreign currency forward rate agreement with a local bank to fix its exposure to adverse exchange rate movements of Euro against the USD. The agreement covers the purchases in Euro required for the Company's under construction porcelain project.

13- Share Capital

The company's capital was set at 800,000,000 Saudi riyals divided into 80,000 shares of equal value, the par nominal value of each share was 10 Saudi riyals, which was distributed among the shareholders as follows:

	2022	2021
Authorized ordinary shares of par value SR 10 each (Shares in	**80,000**	80,000
Fully paid ordinary shares of SR 10 each (Shares in "000")	**80,000**	80,000
Value of issued ordinary shares (SAR "000")	**800,000**	800,000

The shareholders of the Group have approved the issue of 20 million bonus shares amounting to SR 200 million by allotment of one share for every three shares held to the current shareholders of the parent company in the Extra-Ordinary General Meeting held on 30 March 2021. The share capital has increased from SR 600 million to SR 800 million effective 30 March 2021.

14- Statutory reserve

According to Companies Law in the Kingdom of Saudi Arabia and the Company by laws, the group transfers 10% of the annual net profit to the statutory reserve, as this transfer continues until this reserve reaches 30% of the capital. The statutory reserve is not available for distribution as dividends to shareholders.

The Company has not formed statutory reserve as the formed reserve exceeded 30% of the paid-up capital

15- Fair value reserve

The fair value reserve comprises the cumulative net change including impairment, reported directly in equity, in the fair value of financial assets at fair value through other comprehensive income until the assets are derecognized. Upon derecognition, the respective financial assets' amount in transferred to retained earnings as intra-equity transfer

16- Treasury shares

The group previously purchased 500,000 treasuries share during 2019 to distribute to the employee, according to the plan approved by the Board of Directors. During the year ended December 31, 2022, the Group transferred treasury shares amounting to SAR 1.2 million for cash received and the shares were immediately transferred. No gain or loss was recognized in this transaction and the cash consideration received was the average cost of the shares disposed of.

17- Dividend distributions

The Board of Directors of the Saudi Ceramic Company decided in its meeting held on February 16, 2022 (corresponding to Rajab 15, 1443AH) to approve the distribution of cash dividends to the company's shareholders for the second half of the year 2021 by the amount SAR 59.87 million.

Further, The Board of Directors of the Saudi Ceramic Company decided, in their meeting held on July 07, 2022, (corresponding to Dhul Hijjah 8, 1443AH) to approve the distribution of cash dividends to the Company's shareholders for the first half of the year 2022 by the amount SAR 39.9 million.

(In Saudi Riyals Thousand unless otherwise stated)

18- Loans

18.1- Long-term Loans

	2022	2021
Loans from local banks (A)	**416,623**	506,061
Saudi Industrial Development Fund – SIDF loan (B)	**78,120**	151,458
Balance, ending of the year	**494,743**	657,519

A- The movement of long-term loans is as follows:

	2022	2021
Balance, beginning of the year	**657,519**	664,960
Receipts during the year	**-**	525,551
Payments during the year	**(162,776)**	(533,062)
Transfer from bank charges	**-**	70
Balance, ending of the year	**494,743**	657,519
Current portion	**211,938**	234,841
Non-current portion	**282,805**	422,678

B- The Group obtained long-term Islamic Murabaha and Tawarruq loan facilities from local commercial banks of which utilized amount is SAR 309 million (2021: SAR 506 million) for the purpose of financing the expansion of its plants. The bank facilities are guaranteed by promissory notes in favor of the banks. The loans charges are determined based on the Murabaha and Tawarruq agreement and the periodic (quarterly or semi-annual) loans repayments will be made which will end on 31 July 2026.

C- The group obtained loans from the Saudi Industrial Development Fund to finance the expansion of factories for porcelain and porcelain tiles, ceramic pipes, sanitary ware, electric water heaters, and the red brick factory. All the assets of the factories were mortgaged. The book value of these assets is SAR 1,001 million (31 December 2021: SAR 1,166 million).

D- Loan payments are due in unequal semi-annual installments beginning on Rabi' al-Thani 15, 1433H (corresponding to March 8, 2012), and ending on Shawwal 15, 1445H (corresponding to April 24, 2024).

18.2- Short term loans

The group obtained short term loans amounting to SR 160.5 million (2021: SAR Nil). They represented Islamic Murabaha and Tawarruq loans granted to the Group by local commercial banks with maturity of one year or less. These loans were predominantly of a revolving nature and loans' charges were determined based on the basis of market prices. These loans were guaranteed by promissory notes in favor of the banks for the loan values.

18.3- Loan covenants

The loan agreements (among other things) contain terms related to the Group's commitment to certain ratios and financial terms. As of December 31, 2022, Ceramics pipes company (subsidiary company) did not comply with some of the terms of the loan agreements and accordingly the non-current portion of the loan was reclassified to current liabilities.

(In Saudi Riyals Thousand unless otherwise stated)

19- Employees' defined benefit plan obligations

A- The Company determines the present value of employees' defined benefit plan measurement obligations determined by an actuarial valuation in the projected unit credit method, after take in consideration the following set of assumptions:

	2022	2021
Discount rate	**4.10%**	2.20%
Salary increases	**3.20%**	2.34%
Employee's turnover	**14.57%**	12.96%

B- The following is the movement of employees defined benefit plan obligations for the years ended in December 31:

	2022	2021
Balance, beginning of the year	**87,859**	85,370
Stated in statement of profit or loss		
Current service cost	**10,285**	10,677
Interest cost	**1,889**	1,672
Stated in other comprehensive income		
Remeasurement of employees' defined benefit plan obligations by changing interest rate	**(3,269)**	892
Paid during the year	**(5,896)**	(10,752)
Balance, ending of the year	**90,868**	87,859

C- Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the employees' post-employment benefit liability by the amount shown below:

	2022	2021
Base liability	**90,868**	87,859

	As at 31 December 2022		As at 31 December 2021	
	Increase 1%	**Decrease 1%**	Increase 1%	Decrease 1%
Discount rate	**84,257**	**93,339**	82,938	93,023
Future salary growth rate	**93,785**	**83,772**	93,417	82,492

20- Account payables, accrued expenses and other liabilities

	2022	2021
Account payables	**243,206**	147,335
Accrued expenses	**109,289**	88,304
Refund liabilities	**51,533**	69,027
Advances from customers	**2,866**	1,408
Others	**9,150**	11,601
	416,044	317,675

(In Saudi Riyals Thousand unless otherwise stated)

21- Zakat

A- The movement on zakat provision for the year are as follows:

	2022	2021
Balance at the beginning of the year	**22,596**	28,001
Charge during the years	**24,115**	26,784
Paid during the year	**(16,530)**	(32,189)
Balance at the ending of the year	**30,181**	22,596

B- The following is the zakat position of the Saudi Ceramic Company and its subsidiaries:

Saudi ceramic company

The company ended its zakat assessment till 2018 and submitted zakat returns to the Zakat, Tax, and Customs Authority for all previous years since its establishment until the year ended December 31, 2021, and obtained the required certificates for those years.

During the month of November 2021, the company received zakat assessments for the years 2019 and 2020 from Zakat, Tax, and Customs Authority with amount of SAR 1.98 million, company paid the full assessment value of SAR 1.98 million in January 2022. Company has objected to zakat assessments and the objection is still under review by the authority.

Ceramics investment Company

The company submitted zakat returns to the Zakat, Tax, and Customs Authority for all previous years since its establishment until the year ended December 31, 2021, and obtained the required certificates for those years. The company didn't receive any zakat assessment until the date of preparing financial statements.

Arzan company

The company submitted zakat returns to the Zakat, Tax, and Customs Authority for all previous years since its establishment until the year ended December 31, 2021, and obtained the required certificates for those years. The company didn't receive any zakat assessment until the date.

Ceramics pipes company

The company ended its zakat assessment till 2012 and submitted zakat returns to the Zakat, Tax, and Customs Authority for all years since 2013 till 2021 and obtained the required certificates for those years. The company didn't receive any zakat assessment from 2013 till 2021 until the date.

(In Saudi Riyals Thousand unless otherwise stated)

22- Revenues, net

22.1 Classification of revenue from contracts with customers

The group derives revenue from the transfer of goods (at a point in time) in the following major product lines and geographical regions:

	December 31, 2022			
	Ceramics tiles and sanitary ware	**Water heaters**	**Ceramic pipes**	**Total**
Segment revenue	**1,111,516**	**398,900**	**18,986**	**1,529,402**
Inter-segment revenue	**(44,444)**	-	-	**(44,444)**
Revenue from external customers	**1,067,072**	**398,900**	**18,986**	**1,484,958**
Primary geographical markets				
Local	**1,026,961**	**324,922**	**18,986**	**1,370,869**
External	**40,111**	**73,978**	-	**114,089**
	1,067,072	**398,900**	**18,986**	**1,484,958**
Timing of revenue recognition				
At point in time	**1,067,072**	**398,900**	**18,986**	**1,484,958**

	December 31, 2021			
	Ceramics tiles and sanitary ware	**Water heaters**	**Ceramic pipes**	**Total**
Segment revenue	1,174,263	360,907	29,113	1,564,283
Inter-segment revenue	(29,513)	-	-	(29,513)
	1,144,750	360,907	29,113	1,534,770
Primary geographical markets				
Local	1,114,349	275,222	29,113	1,148,684
External	30,401	85,685	-	116,086
	1,144,750	360,907	29,113	1,534,770
Timing of revenue recognition				
At a point in time	1,144,750	360,907	29,113	1,534,770

22.2 Contract balances

The following table provides information about contract assets and contract liabilities from contracts with customers including provision for customers' incentive against volume rebates:

	As at 31 December	
	2022	2021
Receivables, which are included in trade and other receivables	**260,860**	258,636
Contract liabilities which are included in trade and Other payables		
Advances from customers	**2,866**	1,408
Refund liabilities	**51,533**	69,027
Total contract liabilities	**54,399**	70,435

(In Saudi Riyals Thousand unless otherwise stated)

23- Cost of revenue

	2022	2021
Raw materials consumed	**559,664**	524,466
Salaries, wages and other employee costs	**207,007**	210,850
Depreciation on property, plant and equipment **(Note -5)**	**101,668**	103,652
Energy cost	**97,036**	100,022
Repairs and maintenance	**39,722**	31,402
Rent	**2,830**	7,310
Depreciation on right-of-use assets **(Note -6)**	**2,330**	1,765
Provision for obsolete inventories, net **(Note- 9)**	**6,399**	16,977
Others	**15,960**	10,065
	1,032,616	1,006,509

24- Selling and marketing expenses

	2022	2021
Salaries, wages and other employee costs	**83,024**	76,277
Freight and transportation charges	**61,674**	65,786
Depreciation on right-of-use assets **(Note- 6)**	**12,725**	12,644
Depreciation on property, plant and equipment **(Note -5)**	**12,341**	9,065
Communication and fee	**8,372**	4,633
Repairs and maintenance	**6,508**	3,171
Advertising and promotion	**1,803**	3,333
Rent	**511**	1,050
Insurance and travel	**656**	673
Others	**3,028**	3,521
	190,642	180,153

25- General and administrative expenses

	2022	2021
Salaries, wages and other employee costs	**55,052**	71,899
Legal and professional fees	**6,879**	3,535
Provision for directors' remuneration	**3,732**	3,309
Depreciation on property, plant and equipment **(Note- 5)**	**2,497**	3,080
Repairs and maintenance	**731**	972
Insurance and travel	**104**	79
Depreciation on right-of-use assets	-	48
Others	**5,918**	8,027
	74,913	90,949

(In Saudi Riyals Thousand unless otherwise stated)

26- Finance cost

	2022	2021
Interest expense on financial liabilities measured at amortized cost	**21,609**	17,981
Interest expense on lease liabilities	**3,567**	3,038
Finance cost excluding bank charges and foreign exchange loss		
Gain on derivative financial instruments	**25,176**	21,019
Gain on derivative financial instruments **(Note 12)**	**(6,647)**	-
Bank charges and others	**3,805**	2,799
Short term and long term	**22,334**	23,818

Loan Type	Short term and long term borrowings as at December 31		Interest expense for the year ended December 31	
	2022	2021	**2022**	2021
Murabaha	**508,543**	443,535	**15,478**	11,955
SIDF	**78,120**	151,458	**4,131**	5,403
Tawarruq	**68,631**	62,526	**2,000**	623
Total	**655,294**	657,519	**21,609**	17,981

	2022	2021
Interest expense on lease liabilities **(Note 6)**	**3,567**	3,038
Bank charges and others	**3,805**	2,799
Gain on derivative financial instruments	**(6,647)**	-
Total Finance Cost	**22,334**	23,818

27- Other revenues, net

	2022	2021
Scrap sales	**14,844**	12,525
Rental income (27.A)	**5,377**	2,639
Transportation income	**5,171**	4,794
Training support program	**3,180**	2,117
Loss /(gain) from sale of property, plant and equipment	**(1,045)**	1,037
Dividends from the investment in associate FVOCI	**1,801**	1,901
Gain on disposal of right of use	-	1,319
Others	**2,186**	1,329
	31,514	27,661

27.A - Rental income relates to a portion of building and a warehouse rented on temporary basis.

28- Operating Segments

The Group is engaged in the manufacturing and trading of different types of ceramic and porcelain products and water heaters. The Group has the following three strategic divisions which are its reportable segments. The Group's Chief Executive Officer reviews the internal management reports of each segment on monthly basis.

(In Saudi Riyals Thousand unless otherwise stated)

28- Operating Segments (continued)

The following summary describes the operations of each reportable segment

Reportable segment	Operations
Ceramic tiles and sanitary ware	Manufacturing and distribution of ceramic and porcelain tiles and sanitary ware items
Water heaters	Manufacturing and distribution of electric water heaters
Ceramic pipes	Manufacturing and distribution of clay pipes for sanitary ware and sewage networks

Other operations include the red bricks manufacturing and distribution, plastic, packaging, head office and desert mines (branch). None of these segments meets any of the quantitative thresholds for determining reportable segments in 2022 and 2021.

28-1 Information about reportable segments

Information related to each reportable segment is set out below. Segment profit / (loss) before zakat is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

	Ceramic tiles and sanitary ware	Water heaters	Ceramic Pipes Company	Total
As at December 31, 2022				
Total revenue from external customers	**1,067,072**	**398,900**	**18,986**	**1,484,958**
Inter-segment revenue	**44,444**	-	-	**44,444**
Segment revenue	**1,111,516**	**398,900**	**18,986**	**1,529,402**
Segment profit/ (loss) before zakat	**159,119**	**48,063**	**(12,812)**	**194,370**
Depreciation and amortization	**104,565**	**17,658**	**9,337**	**131,560**
As at December 31, 2022				
Segment assets	**2,523,115**	**296,248**	**241,652**	**3,061,015**
Segment liabilities	**1,009,069**	**157,025**	**108,449**	**1,274,543**

	Ceramic tiles and sanitary ware	Water heaters	Ceramic Pipes Company	Total
As at December 31, 2021				
Total revenue from external customers	1,144,750	360,907	29,113	1,534,770
Inter-segment revenue	29,513	-	-	29,513
Segment revenue	1,174,263	360,907	29,113	1,564,283
Segment profit/ (loss) before zakat	211,364	53,779	(6,580)	258,563
As at December 31, 2021				
Segment assets	2,340,062	276,367	247,440	2,863,869
Segment liabilities	856,136	195,231	100,400	1,151,767

(In Saudi Riyals Thousand unless otherwise stated)

28- Operating Segments (Continued)

28-1 Information about reportable segments (Continued)

The geographic information analyses the Group's revenue and non-current assets by the Company's country of incorporation and other countries. In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets. The five largest customers account approximately for 44% of the revenue at 31 December 2022 (31 December 2021: 43%).

28-2 Geographical Revenue

	2022	2021
Saudi Arabia	**1,370,869**	1,418,684
Other GCC countries	**77,447**	73,113
Other countries	**36,642**	42,973
Total	**1,484,958**	1,534,770

28-3 Property, plant and equipment

	2022	2021
Saudi Arabia	**1,602,317**	1,631,619
Other GCC countries	**8,728**	9,079
Total	**1,611,045**	1,640,698

29- Related party transactions and balances

Key management personnel of the Group includes its directors and senior executive management.
Members of the Board of Directors do not receive any remuneration for their role in managing the Company unless approved by General Assembly. Members of the Board of Directors receive an attendance allowance for Board and Committee meetings. Executive Directors receive fixed remuneration as a result of their direct duties and responsibilities. The most Senior Executives, including the Chief Executive Officer and the Chief Financial Officer, receive remuneration according to the employment contracts signed with them.

29-1 The following table illustrates details of remuneration and compensation paid to Directors and Key Management Personnel:

	31 December 2022			31 December 2021		
	Non-executive board members	**Key management personnel**	**Total**	Non-executive board members	Key management personnel	Total
Salaries and compensation	-	**4,241**	**4,241**	-	3,916	3,916
Allowances	-	**1,486**	**1,486**	-	1,359	1,359
Annual and periodic remunerations	-	**3,249**	**3,249**	-	25	25
Incentive plans	-	**116**	**116**	-	170	170
Other benefits	-	**644**	**644**	-	157	157
Total	-	**9,736**	**9,736**	-	5,627	5,627

(In Saudi Riyals Thousand unless otherwise stated)

29-Related party transactions and balances (continued)

29-2 Other related party transactions

	Transactions for the year ended 31 December		Balances as at 31 December	
	2022	2021	**2022**	2021
Associate – Natural Gas Distribution Company				
Purchase of goods and services	**42,870**	55,280	**7,475**	3,815
Dividends received	**397**	397	-	-
Others				
Purchase of goods and services	**6,547**	5,697	**1,265**	316

30-Earnings per share

30-1 Basic earnings per share

Basic earnings per share is calculated by dividing the following net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year.

	For the year ended	
	2022	2021
Profit for the year attributable to the shareholders (SAR "000")	**173,920**	233,792
Weighted average number of shares (Shares in "000")	**79,815**	79,751
Basic and diluted earnings per share (SR)	**2.18**	2.93

30-1-1 Number of shares

Weighted average number of shares are adjusted to take account of Treasury Shares (Note 16).

30-2 Diluted earnings per share

The calculation of diluted earnings per ordinary share is based on net profit attributable to ordinary shareholders of the Group and weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares. There were no potentially dilutive shares outstanding at any time during the year ended December 31, 2022 and 31 December 2021 respectively.

31-Contingent liabilities and outstanding issues

A- The Group has obtained bank facilities in the form of letters of guarantee and letters of credit from local banks amounting to SAR 173 million as at 31 December 2022 (31 December 2021: SAR 93.5 million). The letters of credit include an amount of SAR 146 million (31 December 2021: SAR 35.08 million) relating to capital commitments for the supply of machinery and equipment for the plant expansion projects.

B- The Group has guaranteed a portion of the SIDF loan to CPC (the subsidiary) equivalent to its portion in the share capital of that Company as at 31 December 2022 for the amount of SAR 29 million (31 December 2021: SAR 34.9 million). Additionally, the Group guarantees portion of the Saudi Investment Bank loan to the CPC for the amount of SAR 9.3 million (31 December 2021: SAR 16.7 million).

(In Saudi Riyals Thousand unless otherwise stated)

32- Financial instruments, risk management and fair value

32-1 Accounting classification and fair values

The following table shows the carrying amounts and fair values of the group's financial assets and financial liabilities, including their levels in the fair value hierarchy. For the financial assets and financial liabilities not measured at fair value and having a short-term maturity, it is assumed that the carrying amounts approximate their fair values. Therefore, it does not include fair value information for these financial instruments. This includes cash and cash equivalents, trade and other receivables, loans, and Account payables.

	Carrying amount				Fair value			
31 December 2022	**Fair value – hedging instruments**	**Financial assets at FVOCI**	**Amortized cost**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets								
Financial assets at FVOCI	-	7,422	-	7,422	-	-	7,422	7,422
Trade and other receivables	-	-	311,183	311,183	-	-	-	-
Cash and cash equivalents excluding cash on hand	-	-	69,796	69,796	-	-	-	-
Derivative Financial Instruments	6,647						6,647	6,647
	6,647	7,422	380,979	388,401	-	-	14,069	14,069
Financial liabilities								
Short-term loans	-	-	160,551	160,551	-	-	-	-
Long-term loans	-	-	494,743	494,743	-	-	-	-
Trade payables excluding accrued expenses and others	-	-	243,206	243,206	-	-	-	-
	-	-	898,500	898,500	-	-	-	-

(In Saudi Riyals Thousand unless otherwise stated)

32 - Financial instruments, risk management and fair value (continued)
32-1 Accounting classification and fair values (continued)

	Carrying amount			Fair Value			
As at 31 December 2021	**Financial assets at FVOCI**	**Amortized cost**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets							
Financial assets at FVTOCI	7,987	-	7,987	-	-	7,987	7,987
Account receivables, prepaid expenses and other assets	-	293,479	293,479	-	-	-	-
Cash and Cash equivalents excluding cash in hand	-	109,646	109,646	-	-	-	-
	7,987	403,125	411,112	-	-	7,987	7,987
Financial liabilities							
Short-term loans	-	-	-	-	-	-	-
Long-term loans	-	657,519	657,519	-	-	-	-
Account payables	-	229,371	229,371	-	-	-	-
	-	886,890	886,890	-	-	-	-

(In Saudi Riyals Thousand unless otherwise stated)

32 -Financial instruments, risk management and fair value (continued)

32-1 Accounting classification and fair values (continued)

The following tables show the valuation techniques used in measuring level 2 and level 3 fair values for financial instruments measured at fair value in the statement of financial position, as well as the significant unobservable inputs used.

Investments carried at FVOCI

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Equity securities	The fair value is calculated using the adjusted net asset method which involves deriving the fair value of an investee's equity instruments by reference to the fair value of its assets and liabilities (**recognized** and un-recognized).	- Historical margin on sale of real estate investments by investee (31 December 2022: 8%, 31 December 2021: 7%). - Historical margin on sale of real estate investments under construction by investee (31 December 2022: 7%, 31 December 2021: 9 %).	The estimated fair value would increase (decrease) if: - Expected value change in real estate investments increase (decrease). - Expected value change in real estate investments under construction increase (decrease). - The unobservable inputs are based on the average margin on historical transactions in real estate investment and real estate investments under construction by the investee.

(In Saudi Riyals Thousand unless otherwise stated)

32- Financial instruments, risk management and fair value (continued)

32-2 Fair value

The fair value represents the price that could be received as a result of selling an asset or that could be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that a transaction between the asset or a liability transfer takes place that takes place either:

- In the principal market for assets or liabilities, or
- In the absence of a primary market, in the most advantageous market for the assets or liabilities.

The fair value measurement of a non-financial asset considers the ability of market participants to achieve economic benefits by using the asset in the best possible way and the highest possible interest, or by selling it to another market participant who will use the asset in the best way and with the highest possible interest.

Fair values are classified into different levels in the fair value hierarchy based on the inputs used in the valuation methods as follows:

- Level one: the quoted market prices in active markets for the same financial instruments.
- Level two: valuation techniques that depend on inputs that affect the fair value and can be directly or indirectly observed in the market.
- Level three: Valuation techniques that depend on inputs that affect the fair value that cannot be directly or indirectly observed in the market.

The Group's management believes that the fair value of the Company's financial assets and liabilities is not materially different from their carrying value.

Transfers between levels of fair value hierarchy

There were no transfers between levels of fair value hierarchy in either direction during the years ended 31 December 2022 and 31 December 2021.

Reconciliation of level 3 fair values

The following table shows the reconciliation from the opening balances to the closing balances for level 3 fair values for recurring fair value measurements.

Financial assets at FVOCI

	As of December 31,	
	2022	2021
Balance at 1 January	**7,987**	7,746
Gain included in OCI		
Net change in fair value (unrealized)	**(566)**	241
Balance at 31 December	**7,421**	7,987

Sensitivity analysis

For the fair value of Equity securities at fair value through other comprehensive income reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	OCI, before zakat	
	Increase	Decrease
At 31 December 2022		
Expected value change in real estate investment (1% movement)	**37**	**(37)**
Expected value change in real estate investment under construction (1% movement)	**37**	**(37)**
At 31 December 2021		
Expected value change in real estate investment (1% movement)	31	(31)
Expected value change in real estate investment under construction (1% movement)	24	(24)

(In Saudi Riyals Thousand unless otherwise stated)

32- Financial instruments, risk management and fair value (continued)

32-3 Financial risk management

- *Credit risk management*

Credit risk is represented in the failure of one of the parties to the contracts of financial instruments to fulfill its contractual obligations, which leads to the Group incurring financial losses.
The Group limits its exposure to credit risk from trade receivables by obtaining letters of guarantee or letters of credit based on the credit history of customer.

At 31 December, the gross exposure to credit risk for trade receivables by geographic region was as follows:

	2022	2021
Saudi Arabia	**222,340**	213,074
Other GCC countries	**35,779**	39,721
Other countries	**2,741**	5,841
Total	**260,860**	258,636

The five largest customers account approximately for 39% of gross outstanding trade receivables at 31 December 2021 (2021: 36%).

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance provision is determined as follows; the expected credit losses below also incorporate forward looking information.

31 December 2022	**Expected loss rate**	**Gross Carrying amount**	**Loss allowance provision**
Current	**0.06%**	**221,068**	**153**
0 - 30 Days past due	**0.99%**	**9,991**	**99**
31 - 60 Days past due	**0.10%**	**982**	**1**
61 - 90 Days past due	**7.7%**	**492**	**38**
91 - 120 Days past due	-	-	-
121 - 270 Days past due	**49.6%**	**437**	**217**
270+ Days past due	**76.40%**	**27,890**	**21,310**
		260,860	**21,818**

31 December 2021	**Expected loss rate**	**Gross Carrying amount**	**Loss allowance provision**
Current	0.23%	198,581	454
0 - 30 Days past due	2.88%	8,811	254
31 - 60 Days past due	3.15%	4,099	129
61 - 90 Days past due	15.87%	3,049	484
91 - 120 Days past due	22.36%	2,760	617
121 - 270 Days past due	20.09%	6,511	1,308
270+ Days past due	68.08%	34,825	23,711
		258,636	26,957

(In Saudi Riyals Thousand unless otherwise stated)

32- Financial instruments, risk management and fair value (continued)

32-3- Financial risk management (continued)

During the year, the company made SAR 7.1 million write-off from trade receivables, as it does not expect to receive future cash flows from them and no recoveries from collection of cash flows previously written off.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2022	2021
Balance at 1 January	**26,957**	33,713
Increase in loss allowance recognized in profit or loss	**2,037**	2,883
Write-off during the year	**(7,176)**	(9,639)
Balance at 31 December	**21,818**	26,957

Cash and cash equivalents

The Group held cash and cash equivalents of SAR 70.6 million at 31 December 2022 (31 December 2021: SAR 109.6 million). The cash and cash equivalents are held with banks with high credit ratings, ranging from BBB+ and above therefore, the Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

Liquidity Risk

It represents the difficulties that the company faces in providing funds to fulfill the commitments related to the financial instruments. Liquidity risk results from the inability to sell a financial asset quickly at an amount equal to its fair value. The company manages liquidity risk by ensuring the availability of financial support from ownership.

The following is a statement of the remaining contractual maturities of the financial liabilities at the reporting date. The amounts are gross and undiscounted:

December 31, 2022	Carrying amount	On demand or less than 1 year	Up to 5 years	More than 5 years
Liabilities				
Loans	**655,294**	**372,489**	**282,805**	-
Trade and other payables excluding accrued Expenses	**306,755**	**306,755**	-	-
	962,049	**679,244**	**282,805**	-

December 31, 2021	Carrying	On demand or less than 1	Up to 5 years	More than 5
Liabilities				
Loans	657,519	234,841	422,678	-
Trade and other payables excluding accrued	229,371	229,371	-	-
	886,890	464,212	422,678	-

(In Saudi Riyals Thousand unless otherwise stated)

32- Financial instruments, risk management and fair value (continued)

32-3 Financial risk management (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong capital base to support its business and to sustain the future development of the Group. Management monitors the capital structure and make adjustments to it in light of economic conditions. The Group is not subject to any externally imposed capital requirements. The Group monitors capital using a gearing ratio, which is calculated as net debt divided by total equity. Debt is calculated as total borrowings (non-current and current loans as shown in the statement of financial position) less cash and cash equivalents.

Market risk management

Market risk is the risk of the potential impact of changes in market prices, such as foreign exchange rates and commission rates. The objective of market risk management is to manage and control market risk exposure within acceptable limits while achieving the highest possible return.

A- Foreign exchange rate risk: Foreign exchange rate risk results from changes and fluctuations in the value of financial instruments as a result of changes in foreign exchange rates. The Company did not carry out any operations of relative importance in currencies except for the Saudi riyal, the US dollar and the euro. Since the Saudi riyal exchange rate is fixed against the US dollar and does not represent significant currency risk, the Company's management monitors currency exchange rates and believes that currency risk is not effective.

B- Commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company's financial position and cash flows. The Group is subject to the risk of fluctuating commission charges at prevailing market rates on its bank loans and facilities that carry variable commission rates and amounts to SAR 578 million at 31 December 2022 (31 December 2021: SAR 507 million). The Group's policy is to manage its finance cost using a mix of fixed and variable commission rate borrowings and the Group is working on minimizing the risks on commission rates through monitoring the expected fluctuations in the commission rates.

The following table demonstrates the sensitivity of the income to reasonably possible changes in commission rates, with all other variables held constant. There is no direct impact on the Group's equity.

	Increase/ decrease in basis points of commission rates	Effect on income for the year
31 December 2022	**+100**	**(5,780)**
	-100	**5,780**
31 December 2021	+100	(4,090)
	-100	4,090

Foreign currency risk management

The group is not exposed to significant risks associated with changing foreign currencies, and therefore there is no need for effective management of this exposure.

Interest rate risk management

Financial instruments in the Consolidated statement of financial position are not subject to interest and interest rate risk.

The following table summaries the information relating to non-controlling interests in CPC, before any intra-group eliminations.

(In Saudi Riyals Thousand unless otherwise stated)

33- -Non controlling interest

	2022	2021
NCI percentage	**26.11%**	26.11%
Non-current assets	**187,931**	195,815
Current assets	**53,722**	51,625
Non-current liabilities	**(2,308)**	(2,151)
Current liabilities	**(106,141)**	(98,249)
Net assets	**133,204**	147,040
Net assets attributable to NCI	**36,770**	40,383
Revenue	**18,986**	29,113
Loss	**(14,035)**	(7,553)
Share of loss of CPC allocated to NCI	**(3,665)**	(2,013)
Net cash generated from operating activities	**(3,285)**	29,269
Net cash used in investing activities	**(1,453)**	(2,173)
Net cash used in financing activities	**585**	(23,957)
Net (decrease)/ increase in cash and cash equivalents	**(4,153)**	3,139

With effect from 1 April 2021, the shareholding of the Group in CPC has increased to 73.89%. Refer Note 1.

34- Subsequent events

The Board of Directors of the Saudi Ceramic Company, in its meeting held on February 21, 2023, decided to approve the distribution of SAR 39.9 million (SAR 0.50 per share) cash dividends to the Company's shareholders for the second half of the year 2022.

35- Approval of Consolidated financial statements

The Consolidated financial statements were approved by the Executive Committee under the authority of the Board of Directors after the recommendation of the members of the audit committee to approve them on 3 Sha'ban 1444 (Corresponding to 23 February 2023).