

Saudi Chemical Holding Company (A Saudi Joint Stock Company)

Consolidated Financial Statements and
Independent Auditor's Report
For the year ended 31 December 2023

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

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For the Year Ended 31 December 2023

INDEX	<i>Page(s)</i>
Independent auditor's report	1 - 6
Consolidated statement of financial position	7
Consolidated statement of profit or loss	8
Consolidated statement of comprehensive income	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Notes to the consolidated financial statements	12 - 51

Independent Auditor's Report

To the Shareholders of Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Saudi Chemical Holding Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants.

Basis for Opinion

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

Key Audit Matters

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

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

Independent Auditor's Report

To the Shareholders of Saudi Chemical Holding Company
(A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of goodwill</p> <p>As at 31 December 2023, the Group had a goodwill balance of SR 469.8 million.</p> <p>To assess if there is an impairment in the goodwill, the Group conducts goodwill impairment test annually or whenever changes in circumstances or events indicate that, the carrying amount of goodwill may not be recoverable.</p> <p>We considered this to be a key audit matter given the significant judgement and estimation required to determine recoverable amount and uncertainty inherent in underlying forecasts and assumptions.</p> <p><i>Refer to note 3.16 for the accounting policy related to impairment of non-financial assets and note 4 for the significant accounting estimates and assumption and judgements relating to impairment of non-financial assets and note 7 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> Involved our valuation specialists to assist in evaluating key assumptions and methodologies used by management, in particular those relating to the discount rates and terminal values. Corroborated input data to supporting evidence such as approved budgets and considered the reasonableness of these budgets. Tested the mathematical accuracy of cash flow models. Performed sensitivity analysis around the quantitative key assumptions, to assess if the selected adverse changes to the key assumptions, both individually and in aggregate, would not cause the carrying amount to exceed the recoverable amount.”. Assessed the adequacy of the relevant disclosures included in the consolidated financial statements.

Independent Auditor's Report

To the Shareholders of Saudi Chemical Holding Company
(A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Allowance for impairment of trade receivable</p> <p>As at 31 December 2023, the Group's trade receivables amounted to SR 1.9 billion against which an impairment allowance of SR 162.9 million is maintained.</p> <p>The Group uses the expected credit loss model (ECL) as required by International Financial Reporting Standard 9 (Financial Instrument) (IFRS 9) to calculate allowance for impairment of trade receivable.</p> <p>We considered this as a key audit matter as it involves complex calculations and use of assumptions by management in addition to the materiality of the amounts involved.</p> <p><i>Refer to note 3.13 for the accounting policy related to allowance for impairment of trade receivable and note 4 for the significant accounting estimates and assumption and judgements related to allowance for impairment of trade receivable and note 11 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> Assessed the design, implementation, and operating effectiveness of the key controls related to: <ul style="list-style-type: none"> Recording of trade receivables and settlements. Trade receivables aging reports. Assessed significant assumptions, including collection rates, impairment ratios and those relating to future economic events that are used to calculate the expected credit loss. Involved our specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model). Tested the mathematical accuracy of the ECL model. Assessed the adequacy of the relevant disclosures included in the consolidated financial statements.

Independent Auditor's Report

To the Shareholders of Saudi Chemical Holding Company
(A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Provision of inventories</p> <p>Inventories as at 31 December 2023 amounted to SR 1.1 billion after considering provision of slow-moving, near-expiry and expired inventories of SR 37.6 million.</p> <p>Provision for near-expiry and expired inventory are required for products that are not subject to replacement or return by suppliers as well as slow-moving inventory.</p> <p>We considered the provision of inventory a key audit matter due to significant judgement by management that is required in assessing the appropriate level of the provision.</p> <p><i>Refer to note 3.15 for the accounting policy related to inventories and note 4 for the significant accounting estimates and assumption and judgements relating to provision for inventory and note 10 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Obtained an understating of the process and documentation that Group's management established and implemented in identifying items that are not subject to return or replacement by the suppliers. • Tested the accuracy of the aging report for a sample of products. • Tested, on a sample basis, the underlying data of the products included in the allowance calculation. ; • Assessed the adequacy of the relevant disclosures included in the consolidated financial statements.

Other information included in the Group's 2023 Annual Report

Other information consists of the information included in the Group's 2023 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2023 annual report is expected to be made available to us after the date of this auditor's report.

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

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

Independent Auditor's Report

To the Shareholders of Saudi Chemical Holding Company
(A Saudi Joint Stock Company) (continued)

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report

To the Shareholders of Saudi Chemical Holding Company
(A Saudi Joint Stock Company) (continued)

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

for Ernst & Young Professional Services



Hesham A. Alatiqi
Certified Public Accountant
License No. (523)

Riyadh: 7 Ramadhan 1445H
(17 March 2024)



Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Financial Position
As at 31 December 2023

	Note	2023 SR '000	2022 SR '000
Assets			
Non- current assets			
Property, plant and equipment	6	423,519	429,073
Capital work in progress	6	735,653	703,866
Intangible assets and goodwill	7	609,766	614,218
Right-of-use assets	8	15,450	19,337
Investment in a joint venture	9	4,122	250
Derivative financial instruments	10	1,780	4,198
Total non- current assets		1,790,290	1,770,942
Current assets			
Inventories	11	1,100,977	1,107,992
Trade receivables	12	1,758,090	1,513,481
Amounts due from a related party	21.2	-	3,668
Prepayments and other current assets	13	123,264	149,864
Cash and cash equivalents	14	134,109	91,215
Total current assets		3,116,440	2,866,220
Total assets		4,906,730	4,637,162
Liabilities and equity			
Equity			
Share capital	15	843,200	843,200
Statutory reserve	16	341,868	341,868
General reserve	17	340,000	340,000
Retained earnings		275,219	134,815
Equity attributable to equity holders of the parent		1,800,287	1,659,883
Non-controlling interests		8,801	7,976
Total Equity		1,809,088	1,667,859
Liabilities			
Non-current liabilities			
Long term Islamic loans	18.3	340,392	405,000
Saudi Industrial Development Fund's financing – non-current	18.1	301,021	334,114
Lease liabilities – non-current	19	11,159	13,754
Employees defined benefit liabilities	20	60,859	56,532
Total non-current liabilities		713,431	809,400
Current liabilities			
Saudi Industrial Development Fund's financing – current	18.1	33,094	24,751
Lease liabilities - current	19	4,528	4,459
Long-term loans - current	18.3	99,608	35,000
Short-term Islamic loans	18.2	436,676	689,961
Trade payables		1,505,245	1,148,417
Accrued expenses and other current liabilities	22	186,411	131,339
Amounts due to a related party	21.2	12,537	13,313
Zakat and income tax payable	23.1	50,688	57,197
Dividends payable	34	55,424	55,466
Total current liabilities		2,384,211	2,159,903
Total liabilities		3,097,642	2,969,303
Total equity and liabilities		4,906,730	4,637,162

Sameh Hassan
Group CFO

Eng. Thamer Al-Muhaid
Group CEO

Eng. Fahad S. Al-Jarbou
Chairman of BOD

The attached notes 1 to 37 form an integral part of these consolidated financial statements.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Profit or Loss
For the Year Ended 31 December 2023

	Note	2023 SR '000	2022 SR '000
Revenues	24	4,854,848	3,695,868
Cost of revenues		(4,182,187)	(3,208,213)
Gross profit		672,661	487,655
Selling and distribution expenses	25	(167,439)	(159,483)
General and administrative expenses	26	(124,024)	(102,465)
Expected credit loss on trade receivables	12	(63,856)	(48,297)
Operating profit		317,342	177,410
Finance costs	27	(94,561)	(58,432)
Finance income		111	405
Other (expenses) income, net	28	(1,394)	3,040
Share of profit in a joint venture	9	3,872	-
Foreign currency exchange losses		(5,152)	(12,454)
Revaluation (loss) gains on derivative financial instruments	10	(2,418)	4,198
Profit before zakat and income tax		217,800	114,167
Zakat and income tax expense	23.1	(33,668)	(33,180)
Profit for the year		184,132	80,987
Profit for the year attributable to:			
Equity holders of the parent		182,886	80,223
Non-controlling interests		1,246	764
		184,132	80,987
Basic and diluted earnings per share (SR)	29	0.22	0.10



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Group CFO



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Group CEO



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Saudi Chemical Holding Company
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Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2023

	Note	2023 SR '000	2022 SR '000
Profit for the year		184,132	80,987
Other comprehensive (loss) income			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement (loss) gain on defined benefit plans	20.1	(317)	4,210
Other comprehensive (loss) income for the year		(317)	4,210
Total comprehensive income for the year		183,815	85,197
Attributable to:			
Equity holders of the parent		182,564	84,412
Non-controlling interests		1,251	785
		183,815	85,197



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Group CEO



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Saudi Chemical Holding Company
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Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2023

	<i>Attributable to the equity holders of the parent</i>					<i>Non-controlling interests</i>	<i>Total Equity</i>
	<i>Share capital</i> <i>SR'000</i>	<i>Statutory Reserve</i> <i>SR'000</i>	<i>General reserves</i> <i>SR'000</i>	<i>Retained earnings</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
As at 1 January, 2022	843,200	333,846	340,000	100,585	1,617,631	7,617	1,625,248
Profit for the year	-	-	-	80,223	80,223	764	80,987
Other comprehensive income	-	-	-	4,189	4,189	21	4,210
Total comprehensive income	-	-	-	84,412	84,412	785	85,197
Transfer to statutory reserve	-	8,022	-	(8,022)	-	-	-
Dividends (note 34)	-	-	-	(42,160)	(42,160)	(426)	(42,586)
As at 31 December 2022	843,200	341,868	340,000	134,815	1,659,883	7,976	1,667,859
As at 1 January 2023	843,200	341,868	340,000	134,815	1,659,883	7,976	1,667,859
Profit for the year	-	-	-	182,886	182,886	1,246	184,132
Other comprehensive (loss) income	-	-	-	(322)	(322)	5	(317)
Total comprehensive income	-	-	-	182,564	182,564	1,251	183,815
Transfer to statutory reserve	-	-	-	-	-	-	-
Dividends (note 34)	-	-	-	(42,160)	(42,160)	(426)	(42,586)
As at 31 December 2023	843,200	341,868	340,000	275,219	1,800,287	8,801	1,809,088



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Group CFO



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Group CEO



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The attached notes 1 to 37 form an integral part of these consolidated financial statements.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2023

	Note	2023 SR'000	2022 SR'000
Operating activities			
Profit before zakat and income tax		217,800	114,167
Adjustments for:			
Amortization of intangible assets	7	5,627	2,104
Depreciation of property, plant and equipment	6	36,882	39,232
Depreciation of right-of-use assets	8	3,887	3,701
(Gain) / loss on disposal of property, plant and equipment	28	(830)	196
Share of profit in a joint venture	9	(3,872)	-
Inventories provision	11	28,120	27,040
Expected credit loss on trade receivables	12	63,856	48,297
Provision for employees defined benefit obligation	20	7,145	8,662
Write-off of property, plant, and equipment	6	1,912	-
Revaluation loss / (gain) on derivative financial instruments	10	2,418	(4,198)
Finance costs	27	94,561	58,432
		457,506	297,633
Working capital changes:			
Inventories		(21,105)	23,228
Account receivables		(308,465)	53,242
Prepayment and other assets		26,600	54,476
Trade payable		356,828	347,101
Accrued expenses and other liabilities		51,333	23,340
Amounts due to / from a related party, net		2,892	(3,418)
		565,589	795,602
Cash generated from operations		565,589	795,602
Employees defined benefit obligation paid	20	(5,371)	(8,602)
Zakat and income tax paid	23.1	(40,177)	(22,212)
Finance cost paid		(87,018)	(57,640)
Net cash generated from operating activities		433,023	707,148
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	(8,356)	(7,580)
Purchase of intangible assets	7	(1,175)	(140,249)
Purchase of capital work in progress	6	(67,583)	(112,229)
Proceed from customs refund		13,526	-
Initial investment in a joint venture		-	(250)
Proceeds from disposal of property, plant, and equipment	6	898	131
Net cash used in investing activities		(62,690)	(260,177)
FINANCING ACTIVITIES			
Repayment of Saudi Industrial Development Fund's financing	18.1	(29,000)	(7,159)
Payment of principal portion of lease liabilities	19	(2,526)	(2,739)
Repayment of short-term Islamic loans	18.2	(253,285)	(844,464)
Proceeds from long-term Islamic loans	18.3	-	440,000
Dividends paid to equity holders of the parent		(42,202)	(42,162)
Dividends paid to non-controlling interests		(426)	(426)
Net cash used in financing activities		(327,439)	(456,950)
Increase (decrease) in cash and cash equivalents		42,894	(9,979)
Cash and cash equivalents at the beginning of the year		91,215	101,194
Cash and cash equivalents at the end of the year		134,109	91,215
SIGNIFICANT NON-CASH TRANSACTIONS:			
Additions to right-of-use assets	8	-	10,521
Additions to lease liabilities	19	-	10,330
Transfer from capital work in progress to property, plant, and equipment	6	23,040	1,556
Amortized finance cost capitalized to constructions in progress	6	2,682	12,113
Remeasurement (loss) gain on defined benefit plans	20	(317)	4,210

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Group CFO

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Group CEO

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Chairman of BOD

The attached notes 1 to 37 form an integral part of these consolidated financial statements.

Saudi Chemical Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2023

1. ACTIVITIES

Saudi Chemical Holding Company (the "Company") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia, under commercial registration number 1010006161 dated 12 Safar 1392H (corresponding to 28 March 1972). The registered office of the Company is: P.O. Box 2665, Riyadh 11461, Kingdom of Saudi Arabia. The Group is listed in Tadawul stock exchange.

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

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

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

Subsidiary	Country of incorporation	Main Activity	Ownership %	
			31 December 2023	31 December 2022
Saudi International Trading Company ("SITCO Pharma")	KSA	Distribution of Medicines	99%	99%
Suez International Nitrate Company ("SINCO")	Egypt	Production of Ammonium Nitrate	100%	100%
Chemical Company for Commercial Investment Limited ("CCCIL")	KSA	Wholesale and retail trade in medicines, cosmetics, perfumes, beauty soups, medical tools, and other supplies	100%	100%
AJA Pharmaceuticals Industries Company Limited ("AJA Pharma")	KSA	Manufacturing pharmaceutical products, packaging and storing of medicines, and other medical products	100%	100%
Saudi Chemical Company Limited ("SCCL")	KSA	Establishment, manufacturing & Ownership of explosives factories	100%	100%

During 2022, the subsidiary "Chemical Company for Commercial Investment Limited" invested in a Supply Chain for Logistics Services Company (Note 9).

2. BASIS OF PREPARATION AND CONSOLIDATION

2.1 Basis of preparation

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

These consolidated financial statements have been prepared under the historical cost convention, unless stated otherwise in the below accounting policies. The consolidated financial statements are presented in Saudi Riyals ("SR"), which is the functional, and presentation currency of the Group and all values are rounded to the nearest thousand Saudi Riyals, except when otherwise indicated.

The preparation of the consolidated financial statements in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia requires the use of certain significant accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2023. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity.

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

3. MATERIAL ACCOUNTING POLICY INFORMATION

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

3.1 Business combinations and goodwill

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

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

3.2 Current versus non-current classification

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

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

All other assets are classified as non-current.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2 Current versus non-current classification (continued)

A liability is current when:

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

The Group classifies all other liabilities as non-current

3.3 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

A fair value measurement of a non-financial assets takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Group also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities based on the nature, characteristics and risks of an asset or a liability and level of the fair value hierarchy as explained above.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.4 Revenue from contracts with customers

The Group recognizes revenue from contracts with customers based on a five-step model as set out in IFRS 15. Revenue is recognized based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or services to a customer.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer and is required to pay third-party suppliers even if customers fail to pay. If the Group sells goods or services as an agent, revenue and payments to suppliers are recorded in revenue on a net basis, representing the margin earned. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Sale of goods – other than pharmaceutical and related products

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. The Group recognises revenue when control of the goods has transferred, being when the products are delivered to the customer, the customer has full discretion over the use or sale of such goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location as per the terms of the contract, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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

Sale of goods – pharmaceutical and related products

This involves the sales of pharmaceutical and related products to hospitals and pharmacies. The Group does not establish the prices for the pharmaceutical and related products sold as both the purchase and selling prices for all pharmaceutical and related products are fixed by the Saudi Food and Drug Authority, except for un-priced items.

Revenue from services

Revenue is recognised, when the Group satisfies the performance obligations as specified in the contract with the customer, when the seller has transferred to the customer the promised services, either:

- at a point in time, or
- over a time basis, equivalent to the stage of the completion of service

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, penalties, and consideration payable to the customer (if any).

Variable consideration

In determining the transaction price, the Group considers the effects of variable consideration. If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the products and services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.5 Zakat and Taxes

Zakat

Zakat is provided for in accordance with Zakat, Tax and Customs Authority ("ZATCA") regulations in the Kingdom of Saudi Arabia. Zakat provision is estimated and charged to the consolidated statement of income. Any differences in the estimations is recorded when the final assessment is approved at which time the provision is adjusted. Zakat is calculated on a consolidated basis for the Company and its 100% legally owned subsidiaries. Accordingly, the Company and its 100% legally owned subsidiaries are considered as a single entity for the purposes of Zakat calculation. As for the subsidiaries which are less than 100% owned by the Company, Zakat is calculated on a standalone basis.

Current and deferred taxes

Tax related to subsidiaries located outside the Kingdom is calculated in accordance with tax laws applicable in those countries.

Deferred income tax provisions for foreign entities are calculated using the liability method, based on temporary differences at the end of the financial year between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax liabilities and deferred tax assets are measured at the tax rates expected to be applied in the reporting period in which the obligation is settled, or the assets is realized.

Deferred tax assets of foreign entities are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. This involves a judgement relating to the future financial performance of the foreign entity in which the deferred tax assets have been recognized. Deferred tax liabilities are generally recognized for all temporary differences that are taxable.

The current income tax is recognized in the consolidated statement of profit or loss.

Value Added Tax ("VAT")

Expenses, and assets are recognized net of the amount of VAT, except:

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

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Withholding tax

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

3.6 Foreign currencies

Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies other than Saudi Riyals are recognised in the profit or loss.

The results and financial position of the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Items of equity (except retained earnings and non-controlling interest) are translated at the rate prevailing on the acquisition date.
- Assets and liabilities are translated using the exchange rate prevailing at the reporting date.
- Statement of income items are translated using the weighted average rate for the year. Material gains and losses are translated at the rate prevailing on the date of their occurrence.
- All resulting exchange differences, if material, are recognized as a separate component of equity.

When those entities are partially sold or disposed of, exchange differences that were recorded in equity are recognized in the consolidated statement of income as part of the gains or losses on sale.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.7 Cash dividends

The Group's dividends policy is approved by the General Assembly and the Group recognizes a liability to pay a dividend when the distribution is authorized. A corresponding amount is recognized directly in equity.

3.8 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

Depreciation is calculated on all property and equipment, other than land and capital work-in-progress, at the following useful lives calculated to write off the cost of each asset on a straight-line basis over its expected useful life:

	<i>Useful life</i>
Buildings and infrastructure cost	20-33
Leasehold improvements	The estimated useful life or lease period whichever is lower
Machinery & equipment	7-10
Furniture & fixtures	7-10
Vehicles and transportation equipment	4

The Group reviews the estimated residual values and expected useful lives of assets at least annually. In particular, the Group considers the impact of the plans of the business and levels of expenditure incurred on an ongoing basis to maintain the property and equipment in its assessment of expected useful lives and estimated residual values.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. Major spare parts qualify for recognition as property and equipment when the Group expects to use them during more than one year. Transfers are made to relevant operating assets category as and when such items are available for use.

An item of property and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income under other operating income when the asset is de-recognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

3.9 Capital work in progress

Capital work in progress is stated at cost less accumulated impairment loss, if any. Capital work in progress ("CWIP") represents assets under construction, recorded at cost less any recognized impairment loss. Cost includes cost of equipment, material, professional fees and other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and for qualifying assets also includes, borrowing costs capitalized in accordance with the Group's accounting policy. When commissioned, capital work in progress is transferred to the appropriate property and equipment asset category and depreciated in accordance with the Group's policies.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.10 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

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

Right-of-use assets

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

Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below SR 20,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

3.11 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the assets. 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 of the borrowing of funds.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.12 Intangible assets other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss.

Intangible assets with finite useful lives are amortized using straight-line method over their estimated useful lives as follows:

	<i>Useful life</i>
Computer software	5-8
Brand Key money	5
Other intangible assets	25

3.13 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.13 Financial instruments (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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

Subsequent measurement

For purposes of subsequent measurement, the Group classifies its financial assets into financial assets at amortised cost categories:

Derecognition

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

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

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

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

Impairment

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group consider a financial asset for impairment testing when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.13 Financial instruments (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities includes trade payables, accrued expenses and other liabilities, lease liabilities, long term borrowings and short-term borrowings.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified as financial liabilities at amortised cost (loans and borrowings). After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings, trade payables, accrued expenses and other liabilities.

Derecognition

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

3.14 Offsetting of financial instruments

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

3.15 Inventories

Inventories are valued at the lower of cost and net realisable value. Costs of inventories are determined using the weighted average method. Cost includes expenditure incurred in acquiring the inventories and costs incurred in bringing them to their existing location and condition.

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

Inventories are written down to net realisable value where the cost may not be recoverable owing to damage, obsolescence, or if the selling prices of the items of inventory have declined. For inventories related to distributed pharmaceutical products, if mutually agreed upon and in specific circumstances, the Group recovers the cost from suppliers.

As the ex-factory price or cost, insurance and freight ("CIF") price of pharmaceutical products are fixed by the Saudi Food and Drug Authority ("SFDA"), a reduction in the CIF prices of unsold inventory by the SFDA will be recovered from the supplier, when mutually agreed. Also, when the Group incurs costs related to non-supply of products it has committed to sell to its customers as per the contracts it has entered with these customers. As mutually agreed, the Group recovers certain of these costs from the suppliers.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.16 Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

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

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

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

Goodwill test is carried out annually to ensure that there is no impairment in its value and when circumstances indicate the possibility of a decrease in its book value.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3.17 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.18 Provisions

Provisions are recognised when the Group has present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3.19 Employees' benefits

The Group operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. These benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the year end in which they occur. Remeasurement are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises related restructuring costs

The net interest cost is calculated by applying the discount rate to the net defined benefit liabilities or assets. The Group recognizes the following changes in the net defined benefit obligation under "general and administrative expenses" in the consolidated statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, and
- Net interest expense or income.

3.20 Derivative financial instruments

The Group uses profit rate swaps to hedge the risks associated with profit rates. Hedges that do not meet the hedge accounting requirements of IFRS 9 are measured at FVTPL. Derivatives are carried as financial assets when the fair value is positive, and as financial liabilities when the fair value is negative. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are included in the consolidated statement of comprehensive income as they arise.

3.21 Investments in joint ventures

A joint venture is a joint arrangement whereby the Group has joint control of the arrangement and has rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the governing body of the investee.

The joint ventures are accounted for in the consolidated financial statements of the Group using the equity method of accounting. Under the equity method, the investment in joint ventures in the consolidated statement of financial position are initially recognized at cost and adjusted thereafter to recognize the Group's share in the statement of comprehensive income of the joint venture adjusted for any impairment in the value of the net investment. In addition, when there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognizing its share of further losses.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.21 Investments in joint ventures (continued)

Additional losses are recognized and recorded as liabilities only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Unrealized gain or losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The investment in joint ventures are accounted for using the equity method of accounting starting from the date on which the investee company becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in the consolidated statement of comprehensive income in the acquisition year.

The requirements of IFRSs endorsed in Kingdom are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in a joint venture.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to the consolidated statement of income the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss includes the disposal of the related assets or liabilities.

When any entity within the Group transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

3.22 New standards, interpretation, and amendments

New and amended standards and interpretations

Following are the standards and amendments effective on 1 January 2023 or after (unless otherwise stated) and do not have a material impact on the Group's financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of IFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects.

IFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The new standard had no impact on the Group's consolidated financial statements.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.22 New standards, interpretation, and amendments (continued)

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the Group's consolidated financial statements.

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

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

The amendments had no impact on the Group's consolidated financial statements.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The amendments had no impact on the Group's consolidated financial statements.

New and amended standards and interpretations not yet effective

The new amended, issued standards and interpretations, which are not effective yet have not been adopted early by the Company and will be adopted on their effective date as applicable. The adoption of these standards and interpretations is not expected to have any material impact on the Group on the effective date.

<i>Standard, Amendment or Interpretation</i>	<i>Effective date</i>
- Amendments to IAS (1): Classification of Liabilities as Current or Non-current	1 January 2024
- Amendments to IFRS (16): lease liabilities from sale and leaseback	1 January 2024
- Disclosures: Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7	1 January 2024
- Lack of exchangeability - Amendments to IAS 21	1 January 2025

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND JUDGEMENTS

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

**4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND JUDGEMENTS
(CONTINUED)**

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

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

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

Revenue recognition

The application of IFRS 15 has required management to make the following judgements:

Gross versus net presentation

When the Group sells goods or services as a principal, revenue and payments to suppliers are reported on a gross basis in revenue and operating costs. If the Group sells goods or services as an agent, revenue and payments to suppliers are recorded in revenue on a net basis, representing the margin earned.

Whether the Group is considered to be the principal or an agent in the transaction depends on an analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgements impact the amount of reported revenue and operating expenses but do not impact reported assets, liabilities or cash flows.

Transfer of control in contracts with customers

In case where the Group determines that performance obligation are satisfied at a point in time, revenue is recognized when services or control over the assets that is subject of contract is transferred to the customers.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

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

**4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND JUDGEMENTS
(CONTINUED)**

Provision for expected credit losses of trade receivables

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

Useful lives of property, plant and equipment

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

Useful lives of intangible assets

The management determines the estimated useful lives of intangible assets for computing amortization. This estimate is determined after considering expected usage of the assets. Management reviews the residual value and useful lives annually and future amortization charges are adjusted where management believes the useful lives differ from previous estimates.

Provision for inventory

Inventories are held at the lower of cost or net realizable value. When inventories become slow moving or obsolete, near to expiry or damaged, an estimate is made for their fair value. The Group determines its allowance for inventory obsolescence based upon historical experience, current condition, and current and future expectations with respect to its use. The estimate of the Group's allowance for inventory obsolescence could change from period to period, which could be due to assessment of the future usage of inventory.

Employees' end-of-service benefits

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

Discount rate

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the rate of return on high-quality fixed income investments currently available and the expected period to maturity of the employees' end-of-service benefits.

Mortality rate

The mortality rate is based on publicly available mortality tables. Those mortality tables tend to change only at intervals in response to demographic changes.

Salary rate

Estimates of future salary increase, takes into account inflation, seniority, promotion and past history. Further details about employees' end-of-service benefits are provided in note 20.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

Leases – Estimating the incremental borrowing rate

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

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

The above amendments are not expected to have a material impact on the Group's consolidated financial statements.

Fair value measurement of financial instruments

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

Going concern

The Group's management has assessed the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

5. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has three reportable segments, explosives, medicines and medical supplies and production of ammonium nitrate. Except for the information related to the production of ammonium nitrate segment that is located in the Arab Republic of Egypt, all other information is related to the business segments in the Kingdom of Saudi Arabia. All inter-company transactions within the appropriately reported segments have been eliminated.

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

	<i>Explosive SR '000</i>	<i>Medicine and medical supplies SR '000</i>	<i>Production of ammonium nitrate SR '000</i>	<i>Head office SR '000</i>	<i>Eliminations /adjustments SR '000</i>	<i>Consolidated SR '000</i>
As at 31 December 2023						
Segment assets	1,004,078	3,545,838	161,125	1,974,885	(1,779,196)	4,906,730
Segment liabilities	709,424	2,607,119	130,124	174,771	(523,796)	3,097,642
As at 31 December 2022						
Segment assets	903,821	3,334,552	144,128	1,780,765	(1,526,104)	4,637,162
Segment liabilities	694,919	2,470,567	126,496	118,883	(441,562)	2,969,303

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

5. SEGMENT INFORMATION (CONTINUED)

	<i>Explosive SR '000</i>	<i>Medicine and medical supplies SR '000</i>	<i>Production of ammonium nitrate SR '000</i>	<i>Head office SR '000</i>	<i>Eliminations / adjustments SR '000</i>	<i>Consolidated SR '000</i>
31 December 2023						
Revenues						
External revenues	505,657	4,349,191	-	-	-	4,854,848
Intersegment revenue	-	123,877	94,186	-	(218,063)	-
	505,657	4,473,068	94,186	-	(218,063)	4,854,848
31 December 2023						
Cost of revenues	(270,302)	(4,038,688)	(77,688)	-	204,491	(4,182,187)
Amortization	-	(2,219)	-	(3,408)	-	(5,627)
Depreciation of property, plant and equipment	(8,628)	(22,002)	(5,038)	(1,214)	-	(36,882)
Depreciation of right-of-use assets	(1,292)	(2,595)	-	-	-	(3,887)
Impairment of trade receivables	(13,500)	(50,356)	-	-	-	(63,856)
Other operating expenses and other income	(126,161)	(240,619)	(9,994)	185,011	(186,831)	(378,594)
Segment comprehensive income	85,774	116,589	1,466	180,389	(200,403)	183,815
31 December 2022						
Revenues						
External revenues	324,178	3,360,887	10,803	-	-	3,695,868
Intersegment revenue	-	86,815	66,828	-	(153,643)	-
	324,178	3,447,702	77,631	-	(153,643)	3,695,868
31 December 2022						
Cost of revenues	(179,940)	(3,104,314)	(67,872)	-	143,913	(3,208,213)
Amortization	-	(2,060)	-	(44)	-	(2,104)
Depreciation of property, plant and equipment	(8,608)	(24,073)	(4,936)	(1,615)	-	(39,232)
Depreciation of right-of-use assets	(1,093)	(2,608)	-	-	-	(3,701)
Impairment of trade receivables	(15,679)	(32,618)	-	-	-	(48,297)
Other operating expenses and other income	(68,891)	(221,491)	(4,538)	86,068	(100,272)	(309,124)
Segment comprehensive income	49,967	60,538	285	84,409	(110,002)	85,197

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2023

6. PROPERTY, PLANT AND EQUIPMENT AND CAPITAL WORK IN PROGRESS

	<i>Land</i> <i>SR '000</i>	<i>Buildings and</i> <i>Infrastructure</i> <i>Costs</i> <i>SR '000</i>	<i>Leasehold</i> <i>Improvements</i> <i>SR '000</i>	<i>Machinery</i> <i>and</i> <i>Equipment</i> <i>SR '000</i>	<i>Furniture,</i> <i>Fixtures and</i> <i>Tools</i> <i>SR '000</i>	<i>Vehicles and</i> <i>Transportation</i> <i>Equipment</i> <i>SR '000</i>	<i>2023</i> <i>Total</i> <i>SR '000</i>	<i>Capital</i> <i>Work in</i> <i>Progress</i> <i>SR '000</i>
<i>Cost:</i>								
As at 1 January 2023	30,973	453,161	52,470	305,411	28,272	72,183	942,470	703,866
Additions	4,385	238	340	2,035	962	396	8,356	70,265
Disposals	-	(312)	(3,129)	(2,487)	(976)	(7,718)	(14,622)	-
Transfers	937	19,841	1,357	639	266	-	23,040	(23,040)
Customs refund	-	-	-	-	-	-	-	(13,526)
Write-off	-	-	-	-	-	-	-	(1,912)
As at 31 December 2023	36,295	472,928	51,038	305,598	28,524	64,861	959,244	735,653
<i>Accumulated depreciation:</i>								
As at 1 January 2023	-	204,298	23,803	196,327	22,033	66,936	513,397	-
Charge for the year	-	10,853	2,674	18,909	1,655	2,791	36,882	-
Disposals	-	(310)	(3,129)	(2,424)	(974)	(7,717)	(14,554)	-
As at 31 December 2023	-	214,841	23,348	212,812	22,714	62,010	535,725	-
<i>Net book value:</i>								
As at 31 December 2023	36,295	258,087	27,690	92,786	5,810	2,851	423,519	735,653

During 2023, the Group sold machinery, leasehold improvement, vehicles, and equipment with a total net carrying value of SR 68 thousand (2022: SR 328 thousand) against a consideration of SR 898 thousand (2022: SR 131 thousand). The net gain (loss) on these disposals were recognized as part of other income in the consolidated comprehensive income amounting to SR 830 thousand (2022: SR (196) thousand) (note 28).

The finance costs included in the qualified assets' costs during the year ended 31 December 2023 amounted to SR 2.7 million (31 December 2022: SR 12.1 million).

Capital work-in-progress as at 31 December 2023 mainly represent the costs incurred in constructing the Group's pharmaceutical Plant in Hail Industrial City, and a new Explosives Plant in Riyadh.

The pharmaceutical plant in Hail and the new explosives plant in Riyadh, including the related buildings, machinery, motor vehicles, and all other assets have been mortgaged for the interest of Saudi Industrial Development Fund as a security for related loans.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2023

6. PROPERTY, PLANT AND EQUIPMENT AND CAPITAL WORK IN PROGRESS (CONTINUED)

	Land SR '000	Buildings and Infrastructure Costs SR '000	Leasehold Improvements SR '000	Machinery and Equipment SR '000	Furniture, Fixtures and Tools SR '000	Vehicles and Transportation Equipment SR '000	2022 Total SR '000	Capital Work in Progress SR '000
Cost:								
As at 1 January 2022	30,973	452,541	52,531	301,385	25,877	71,103	934,410	608,293
Additions	-	-	133	3,478	2,402	1,567	7,580	97,129
Disposals	-	-	(194)	(388)	(7)	(487)	(1,076)	-
Transfers	-	620	-	936	-	-	1,556	(1,556)
As at 31 December 2022	30,973	453,161	52,470	305,411	28,272	72,183	942,470	703,866
Accumulated depreciation:								
As at 1 January 2022	-	194,005	21,291	176,339	20,826	62,452	474,913	-
Charge for the year	-	10,293	2,550	20,280	1,214	4,895	39,232	-
Disposals	-	-	(38)	(292)	(7)	(411)	(748)	-
As at 31 December 2022	-	204,298	23,803	196,327	22,033	66,936	513,397	-
Net book value:								
As at 31 December 2022	30,973	248,863	28,667	109,084	6,239	5,247	429,073	703,866

The below table shows the distribution of depreciation expense according to operating cost items for the year ending December 31:

	2023 SR '000	2022 SR '000
Cost of Revenue	28,830	29,047
Selling and distribution expenses (note 25)	5,355	7,110
General and administrative expenses (note 26)	2,697	3,075
	36,882	39,232

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2023

7. INTANGIBLE ASSETS AND GOODWILL

	<i>New Brand Key Money SR'000</i>	<i>Computer Software SR'000</i>	<i>Goodwill SR'000</i>	<i>Other intangible assets*</i>	<i>Total SR'000</i>
2023					
<i>Cost</i>					
As at 1 January 2023	12,500	22,455	469,807	138,820	643,582
Additions	-	1,175	-	-	1,175
As at 31 December 2023	12,500	23,630	469,807	138,820	644,757
<i>Amortization and impairment</i>					
As at 1 January 2023	9,500	19,864	-	-	29,364
Amortization	1,500	888	-	3,239	5,627
As at 31 December 2023	11,000	20,752	-	3,239	34,991
Net Book Value					
As at 31 December 2023	1,500	2,878	469,807	135,581	609,766
	<i>New Brand Key Money SR'000</i>	<i>Computer Software SR'000</i>	<i>Goodwill SR'000</i>	<i>Other intangible assets*</i>	<i>Total SR'000</i>
2022					
<i>Cost</i>					
As at 1 January 2022	12,500	21,026	469,807	-	503,333
Additions	-	1,429	-	138,820	140,249
As at 31 December 2022	12,500	22,455	469,807	138,820	643,582
<i>Amortization and impairment</i>					
As at 1 January 2022	8,000	19,260	-	-	27,260
Amortization	1,500	604	-	-	2,104
As at 31 December 2022	9,500	19,864	-	-	29,364
Net Book Value					
As at 31 December 2022	3,000	2,591	469,807	138,820	614,218

* Additions to other intangible assets in the year ended 31 December 2022 represent the acquisition of rights of manufacturing, marketing, and distribution of one medicine products in Saudi Arabia. The subsidiary - AJA Pharmaceutical Industries Company (AJA Pharma) will be the manufacturer and supplier in KSA market. In June 2023, AJA Pharma obtained necessary approvals from the competent authorities and commenced manufacturing and supplying the product.

Goodwill arose from the acquisition of SITCO Pharma in 2001. For impairment testing, goodwill acquired through business combinations is allocated to the business CGUs. As at 31 December 2023, the goodwill amounted to SR 469.8 million (2022: SR 469.8 million). The Weighted Average Cost of Capital ("WACC") rate applied is 12.37% (31 December 2022: 10.40%). The WACC is calculated based on assumptions that reflect market assessments of the risk specific the CGU. Segment specific risk is incorporated by applying average beta factors. The beta factors are evaluated annually based on publicly available market data of the industry. The average effective zakat rate is assumed to be 2.5% (2022: 2.5%). The cash flow projections are derived from the respective business plan covering a period of five years. Cash flow projections beyond the five-year business plan are extrapolated taking into account an assumed growth rate of 2.0% (2022: 2.0%).

Based on the analysis, an increase of 100 basis points in the discount rate would result in a decrease in the VIU by 17%, while a decrease in 100 basis points in the discount rate would result in an increase of 27%. An increase in the terminal growth rate by 100 basis points would result in an increase of 8% in the value in use, while a decrease of 100 basis points in the rate would result in a decrease in the VIU by 7%. With respect to the assessment of the value in use, management believes that reasonably possible change in its used assumptions would not cause the carrying value of its goodwill to exceed its recoverable amount. No impairment loss was recognized for 2023 and 2022, respectively.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

7. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

	2023 SR '000	2022 SR '000
Cost of Revenue	3,237	-
Selling and distribution expenses (note 25)	1,500	1,500
General and administrative expenses (note 26)	890	604
	5,627	2,104

8. RIGHT-OF-USE ASSETS

	<i>Parcels of Land SR'000</i>	<i>Warehouses and offices SR'000</i>	<i>Total SR'000</i>
<i>Cost</i>			
As at 1 January 2023	18,776	10,492	29,268
Additions	-	-	-
As at 31 December 2023	18,776	10,492	29,268
<i>Accumulated Depreciation</i>			
As at 1 January 2023	4,919	5,012	9,931
Depreciation expense	1,791	2,096	3,887
As at 31 December 2023	6,710	7,108	13,818
<i>Net Book Value</i>			
As at 31 December 2023	12,066	3,384	15,450

	<i>Parcels of Land SR'000</i>	<i>Warehouses and offices SR'000</i>	<i>Total SR'000</i>
<i>Cost</i>			
As at 1 January 2022	10,168	8,579	18,747
Additions	8,608	1,913	10,521
As at 31 December 2022	18,776	10,492	29,268
<i>Accumulated Depreciation</i>			
As at 1 January 2022	3,534	2,696	6,230
Depreciation expense	1,385	2,316	3,701
As at 31 December 2022	4,919	5,012	9,931
<i>Net Book Value</i>			
As at 31 December 2022	13,857	5,480	19,337

The below table shows the distribution of amortization expense according to operating cost items for the year ending December 31:

	2023 SR '000	2022 SR '000
Cost of Revenue	1,582	1,500
Selling and distribution expenses (note 25)	118	14
General and administrative expenses (note 26)	2,187	2,187
	3,887	3,701

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

9. INVESTMENT IN A JOINT VENTURE

Care Supply Chain for Logistic Services Company Ltd. (the "Joint Venture" and "CSC") is a joint venture in which the Group owns a common control and partners' resolutions are adopted unanimously as per the Company's Articles of Association, with an ownership interest of 50%. The Joint Venture has been incorporated as per Saudi Regulations and registered in Riyadh under commercial registration number 1010846387 on 17 Jumada Al-Ula 1444H (11 December 2022) with a share capital at an amount of SR 500 divided into 500 shares with SR 1000 each. The objective of the Company is to provide transportation services, loading, unloading, warehousing and distribution. The Group's share in the joint venture is accounted for under equity method.

Summarized financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

Movement of investment in the joint venture:

	2023 SR '000	2022 SR '000
As at 1 January	250	-
Initial investment	-	250
Share of profit	3,872	-
As at 31 December	4,122	250

Summarized financial position of CSC:

	2023 SR '000	2022 SR '000
Current assets	43,325	500
Current liabilities	(35,081)	-
Equity	8,244	500
Group's share in equity – 50%	4,122	250
Group's carrying amount of the investment	4,122	250

Summarized statement of profit or loss of CSC:

	2023 SR '000
Revenue	33,770
Expenses	(25,041)
Profit before tax	8,729
Income tax expense	(986)
Profit for the year	7,743
Group's share of profit for the year	3,872

The joint venture had no other contingent liabilities or commitments as at 31 December 2023.

10. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments designated at fair value through profit and loss which represent a portfolio of profit rate swaps. The maturity dates range from 2025 to 2027 with three-month variable interest rate and SAIBOR. Derivatives do not meet the criteria for hedge accounting. The nominal value of the contracts as at 31 December 2023 amounted to SR 800 million (31 December 2022: SR 800 million), and the fair value of the derivatives amounted to SR 1.8 million (31 December 2022: 4.2 million). The change in the fair value of derivatives represents a loss of SR 2.4 million for the year ending 31 December 2023 (31 December 2022: gain of SR 4.2 million).

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

11. INVENTORIES

	2023 SR '000	2022 SR '000
Finished goods (Pharmaceuticals)	1,026,706	1,065,952
Raw materials (ammonium nitrate and other chemicals)	57,597	31,027
Finished goods (explosives)	48,686	32,096
Spare parts	5,400	4,200
Packaging material	160	7,171
	1,138,549	1,140,446
Less: provision for inventory	(37,572)	(32,454)
	1,100,977	1,107,992

Movement in provision for inventory is as follows:

	2023 SR '000	2022 SR '000
As at 1 January	32,454	44,934
Provided during the year	28,120	27,040
Write offs	(23,002)	(39,520)
As at 31 December	37,572	32,454

12. TRADE RECEIVABLES

	2023 SR '000	2022 SR '000
Trade receivables	1,921,066	1,722,120
Less: Impairment on trade receivables	(162,976)	(208,639)
	1,758,090	1,513,481

Trade receivables from Saudi government institutions represented: 62% of the total trade receivables as on 31 December 2023 (31 December 2022: 60% of the total trade receivable). These institutions have a strong credit rating in the Saudi market.

The Group recognized an allowance for expected credit losses for trade receivables for the year ended 31 December 2023 in the amount of SR 63.9 million (31 December 2022: SR 48.3 million).

Set out below is the movement in the allowance for expected credit losses of trade receivables:

	2023 SR '000	2022 SR '000
As at 1 January	208,639	160,845
Provided during the year	63,856	48,297
Write offs	(109,519)	(503)
As at 31 December	162,976	208,639

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

13. PREPAYMENTS AND OTHER CURRENT ASSETS

	2023 SR '000	2022 SR '000
Advances to suppliers	98,037	118,008
Deferred registration and licensing fees	7,881	7,643
Tax authority receivable – Egypt	6,078	13,283
Prepaid expenses	4,660	5,448
Value added tax receivable	2,108	2,737
Advances to employees	1,264	1,127
Insurance with others	796	313
Other	2,440	1,305
	123,264	149,864

14. CASH AND CASH EQUIVALENTS

	2023 SR '000	2022 SR '000
Short term deposit	70,000	25,000
Cash at banks	63,199	65,371
Cash on hand	910	844
	134,109	91,215

The short-term deposits, with a maturity period from 15 to 90 days, carry fixed rate of return between 5.55% to 6.00% (2022: 4.00% to 4.40%) per annum.

15. SHARE CAPITAL

On 3 Thul-Hijjah 1444 (Corresponding to 21 June 2023), the Extraordinary General Assembly approved the recommendation of the Board of Directors to split the nominal value of the share from SR 10 per share to SR 1 per share. As a result, the number of shares increased from 84,320,000 shares to 843,200,000 shares. The legal formalities to reflect the aforementioned were completed during the year.

As at 31 December 2023, the share capital of the Company consists of 843,200,000 shares with nominal value of SR 1 per share aggregating to SR 843,200,000 (31 December 2022: 84,320,000 shares with nominal value of SR 10 per share aggregating to SR 843,200,000).

16. STATUTORY RESERVE

As per the Company's By-laws, the Company must set aside 10% of net income for the year to the statutory reserve till it equals 30% of the share capital. As the reserve has reached the minimum amount, the Group has resolved to discontinue such transfers. This statutory reserve is not available for distribution to the Group's shareholders.

17. GENERAL RESERVE

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

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

18. LOANS AND BORROWINGS

18.1 Saudi Industrial Development Fund's Financing

The long-term loans were obtained by two subsidiaries of the Group from Saudi Industrial Development Fund ("SIDF") to meet the Group's capital expenditure. The first loan was obtained by AJA Pharmaceuticals Industries Limited ("AJA Pharma") during 2016 and amounted to SR 157.5 million, of which the full amount of the facility has been utilized as at 31 December 2023 (31 December 2022: SR 157.5 million). The second loan was obtained by Saudi Chemical Company Limited ("SCCL") during 2020 and amounted to SR 229 million, of which the full amount of the facility has been utilized as at 31 December 2023 (31 December 2022: SR 229 million).

The loan to AJA Pharma is repayable in sixteen semi-annual installments starting from 15 Shawwal 1444 H (corresponding to 5 May 2023), while the loan to SCCL is repayable in fourteen semi-annual installments starting from 15 Rabi Al-Thani 1444 H (corresponding to 9 November 2022).

The loans from SIDF carried fixed commission charges of SR 26.4 million, which have been paid upfront by the Group at the beginning of the loan term. The commission charges are being amortized over the terms of the loans. As at 31 December 2023, the unamortized balance amounted to SR 13 million (31 December 2022: SR 16.6 million).

The amortization of such qualified charges along with other finance costs of the loan are capitalized as part of the carrying value of the property, plant and equipment (during the construction period).

The agreements are secured promissory notes, and pledge of the subsidiaries' property, plant and equipment. The subsidiaries are required to comply with certain covenants under the loan facilities obtained.

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

	2023 SR '000	2022 SR '000
Loans from Saudi Industrial Development Fund	349,500	378,500
Less: Unamortized processing fees	(13,008)	(16,619)
Present value adjustment	(2,377)	(3,016)
	334,115	358,865
Current	33,094	24,751
Non-current	301,021	334,114
	334,115	358,865

Movements in unamortized transaction costs are as follows:

	2023 SR '000	2022 SR '000
As at 1 January	16,619	20,409
Amortized during the year	(3,611)	(3,790)
As at 31 December	13,008	16,619

18.2 Short-Term Islamic Loans

The Group is using Islamic financing to finance its business operations. These facilities bear finance cost at SAIBOR plus prevailing market rates. The facilities are secured by promissory notes. The facilities agreement includes covenants requiring the maintenance of certain levels of financial ratios.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2023

18. LOANS AND BORROWINGS (CONTINUED)

18.3 Long-Term Islamic Loans

In June 2022, the Group acquired a long-term Islamic loan from a local bank in the amount of SR 300 million to finance the construction of the subsidiary's factory. The loan is subject to the prevailing interest rates between the Saudi banks (SIBOR) plus a profit margin. The loan is repayable in 6 years in quarterly installments after a grace period two years.

Also, during June 2022, the Group acquired a long-term Islamic loan from a local bank in the amount of SR 140 million to finance its acquisition of a pharmaceutical product. The loan is subject to the prevailing interest rates between the Saudi banks (SAIBOR) plus a profit margin. The loan is repayable in equal 8 semi-annual installments with the last installment payable in September 2027 after a grace period of one year. The current and non-current portion of the long-term Islamic loans are SR 99.6 million and 340.4 million (2022: 35 million and 405 million), respectively. The facility agreement includes covenants requiring the maintenance of certain levels of financial ratios.

19. LEASE LIABILITIES

	2023 SR '000	2022 SR '000
As at 1 January	18,213	10,622
Additions	-	10,330
Accretion of interest	630	316
Payments	(3,156)	(3,055)
As at 31 December	15,687	18,213
Current	4,528	4,459
Non-current	11,159	13,754
	15,687	18,213

The maturity analysis of lease liabilities is disclosed in Note 31.

The following are the amounts recognised in profit or loss:

	2023 SR '000	2022 SR '000
Expense relating to short-term leases	2,097	3,515
Depreciation expense of right-of-use assets (note 8)	3,887	3,701
Interest expense on lease liabilities	630	316
	6,614	7,532

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2023

20. EMPLOYEES DEFINED BENEFIT LIABILITIES

20.1 Changes in the Present Value of Employees' Defined Benefits Liabilities

Movements of end of service benefit provision for the year ended 31 December is as follow:

	2023 SR '000	2022 SR '000
As at 1 January	56,532	59,403
Service cost	7,145	8,662
Interest cost	2,236	1,279
Re-measurement loss / (gain) of defined benefit liability	317	(4,210)
Benefits paid	(5,371)	(8,602)
As at 31 December	60,859	56,532

20.2 Employees' Benefit Expense

The amounts recognized in the consolidated statement of profit or loss are as follows:

	2023 SR '000	2022 SR '000
Service cost	7,145	8,662
Interest cost	2,236	1,279
	9,381	9,941

20.3 Principal Actuarial Assumptions

	2023	2022
Discount rate	4.45%-4.70%	4.10% - 4.25%
Salary increase rate	3.00%-6.50%	3.00% - 5.7%

20.4 Maturity Profile of Employees' Defined Obligation

The following table shows the maturity profile of the Group's defined benefit obligations as at 31 December:

	2023 SR '000	2022 SR '000
One year or less	14,156	12,886
Above one year but less than five years	19,210	40,669
Above five years	47,481	44,244
	80,847	97,799

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

20. EMPLOYEES DEFINED BENEFIT LIABILITIES (CONTINUED)

20.5 Employees' Defined Benefit Obligation Sensitivity Analysis

The sensitivity of the benefits to changes in the weighted principal assumptions are:

31 December 2023	Change in assumption		Impact on employee benefit Obligations	
	Change in assumption	Base value SR '000	Increase in assumption SR '000	Decrease in assumption SR'000
Discount rate	100 basis points	60,859	(3,019)	3,179
Salary growth rate	100 basis points	60,859	3,478	(3,344)

31 December 2022	Change in assumption		Impact on employee benefit Obligations	
	Change in assumption	Base value SR '000	Increase in assumption SR '000	Decrease in assumption SR'000
Discount rate	100 basis points	56,532	(3,054)	3,426
Salary growth rate	100 basis points	56,532	3,711	(3,365)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the employees' terminal benefits liabilities as a result of reasonable changes in key assumptions occurring as at 31 December 2023 and 31 December 2022. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

The average duration of the defined benefit plan obligation as at 31 December 2023 is 3.61 – 6.64 years (31 December 2022: 4.38 – 7.89 years).

The Group's plan is exposed to actuarial risks such as discount rate risk and salary change risk.

Discount Rate Risk	The decrease in discount rate will increase liabilities of terminal benefit plan
Salary changes risk	The current value of the provision for terminal benefit plan is calculated based on the participants' future salaries in the plan. Therefore, the increase in the participants' salaries in the plan will lead to an increase in the liabilities of the plan.

21. RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent shareholders, Directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. As at yearend, all related party transactions between subsidiaries were eliminated.

21.1 Compensation and benefits of key executives

The following represent the compensation of the executives for the year ended December 31:

	2023 SR '000	2022 SR '000
Expenses and remuneration of the Board of Directors (Note 26)	5,651	3,019
Short-term benefits and remuneration	17,477	14,435
Post-employment benefits	764	389

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

21. RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

21.2 BALANCES OF RELATED PARTIES

The following is a statement of the balances at the end of the year resulting from transactions with a related party:

			Transaction amount		Balance as at	
Name of related party	Relationship	The nature of the transaction	2023 SR '000	2022 SR '000	2023 SR '000	2022 SR '000
Amounts due from related parties:						
Care Supply Chain for Logistic Services Company Ltd.	Joint venture	Payments and expenses on behalf	-	3,668	-	3,668
Amounts due to related parties:						
Care Supply Chain for Logistic Services Company Ltd.	Joint venture	Services	16,205	-	12,537	-
Hellmann Worldwide Logistics	Partner in a joint venture	Affiliate services	10,786	13,313	-	13,313

22. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2023 SR '000	2022 SR '000
Accrued expenses	50,378	24,680
Accrued employee benefits	48,721	40,302
Provision for sales returns	20,776	14,293
Provision for lawsuits	19,706	14,506
Advances for customers	15,178	9,825
Provision for sale discount	8,830	9,838
Penalties	5,588	-
Accrued Board of Director remunerations	5,572	4,241
Other liabilities	11,662	13,654
	186,411	131,339

23. ZAKAT AND INCOME TAX

23.1 Movement in provision for zakat and income tax during the year

	2023 SR'000	2022 SR'000
As at 1 January	57,197	46,229
Charged during the year	33,668	33,180
Paid during the year	(40,177)	(22,212)
As at 31 December	50,688	57,197

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2023

23. ZAKAT AND INCOME TAX (CONTINUED)

23.2 Zakat Status

Zakat and income tax provisions of SR 33.7 million were recognized by the Group during the year ended 31 December 2023 (31 December 2022: SR 33.2 million). The Company, SITCO Pharma, CCCIL, AJA Pharma and SCCL have filed their zakat declarations and obtained zakat certificates for the years up to 2019.

The Group obtained the approval from Zakat, Tax and Customs Authority ("ZATCA") to submit consolidated zakat returns for the holding company and the following subsidiaries: SCCL, AJA Pharma, and CCCIL starting from the year 2020. In addition, SITCO Pharma submits a separate zakat return. The Group has submitted its consolidated zakat returns for the years 2020 to 2022.

As at 31 December 2023, the Group obtained the final zakat assessments from the ZATCA up to the year 2020, which resulted in an additional amount of SR 25 million. However, the Group has accepted ZATCA's settlement of SR 14.6 million for the years 2015 to 2020.

SITCO Pharma has filed its zakat declarations and obtained zakat certificates for the years up to 2022. The Company obtained the final zakat assessments for years up to 2017 from ZATCA. No differences were produced from the final zakat assessment. No assessment has been raised by ZATCA for the period from 2018 to 2022.

23.3 Income Tax

The income tax expense payable by a foreign subsidiary, in accordance with the prevailing tax regulations in its country, for the year ended 31 December 2023 amounted to SR 1.6 million (31 December 2022: SR 204,3 thousand). Income tax payment has been deferred for the period until the final tax returns are submitted.

24. REVENUE

	2023 SR '000	2022 SR '000
Sale of goods	4,823,964	3,665,967
Rendering of services	30,884	29,901
	4,854,848	3,695,868
	2023 SR '000	2022 SR '000
Government	2,376,552	1,525,861
Non-government	2,478,296	2,170,007
	4,854,848	3,695,868

Revenue is recognized in the consolidated statement of profit or loss at a point in time when the service or product is deemed to have been delivered to the customer. Refer to Note 5 for the segment distribution of revenue.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2023

25. SELLING AND DISTRIBUTION EXPENSES

	2023 SR '000	2022 SR '000
Employee Costs	88,551	85,647
Freight and transportation	31,903	25,636
Store management expenses (Note 21.2)	10,786	13,313
Insurance	6,334	6,443
Depreciation of property, plant, and equipment (note 6)	5,355	7,110
Commission and incentive	4,463	2,198
Utilities	3,960	3,844
Advertising and promotional activities	2,877	2,487
Rent	2,005	3,515
Registration and subscription Fees	1,890	1,803
Travel and accommodation	1,634	1,589
Amortization of intangible assets (note 7)	1,500	1,500
Exhibitions and conferences	1,464	1,054
Depreciation of right of use assets (note 8)	118	14
Samples	112	478
Repair and maintenance	57	452
Office supplies and stationery	48	35
Others	4,382	2,365
	167,439	159,483

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2023 SR '000	2022 SR '000
Employee cost	69,555	63,578
Professional and legal fees	13,412	7,430
Registration and subscription fees	6,355	5,842
Insurance	6,188	1,576
Board of Directors' remunerations (note 21.1)	5,651	3,019
Utilities	3,346	4,242
Depreciation of property, plant, and equipment (note 6)	2,697	3,075
Depreciation of right of use assets (note 8)	2,187	2,187
Trips and accommodation	1,780	1,306
Repairs and maintenance	1,163	710
Stationery and office supplies	1,046	453
Amortization of intangible assets (note 7)	890	604
Others	9,754	8,443
	124,024	102,465

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2023

27. FINANCE COSTS

	2023 SR '000	2022 SR '000
Short-term Islamic loans (Note 18.2)	60,638	50,192
Long term financing (Note 18.3)	21,854	13,183
SIDF financing (Note 18.1)	11,885	4,447
Employees' defined benefit liabilities (Note 20)	2,236	1,279
Financing costs on derivatives (Note 10)	-	1,128
Lease liabilities (Note 19)	630	316
	97,243	70,545
Less: Finance costs included in the costs of qualifying assets	(2,682)	(12,113)
	94,561	58,432

28. OTHER (EXPENSES) INCOME, NET

	2023 SR '000	2022 SR '000
Unutilized accruals	-	1,703
Gain / (loss) on disposal of property, plant and equipment (Note 6)	830	(196)
Others	(2,224)	1,533
	(1,394)	3,040

29. BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share ("EPS") is computed using net profit for the year attributable to ordinary equity holders of the Group based on the weighted average number of shares outstanding during the year of 843,200,000 shares.

The number of shares for the year ended 31 December 2022 has been adjusted retrospectively to reflect the shares split (Note 15). Since the change in number of shares outstanding during the year ended 31 December 2023 was due to shares split without a corresponding change in resources, number of shares outstanding for all periods presented was adjusted retrospectively.

The diluted earnings per share are the same as the basic earnings per share as the Group does not have any diluted instruments in issue.

The following table reflects the income for the year attributable to equity holders of the parent and share data used in the basic and diluted EPS computations:

	2023 SR '000	2022 SR '000
Income for the year attributable to equity holders of the parent	182,886	80,223
	2023	2022
Weighted average number of ordinary shares	843,200,000	843,200,000
Basic and diluted earnings per share attributable to equity holders of the parent (SR)	0.22	0.10

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets and Liabilities are measured at fair value in the consolidated statement of financial position in three levels of fair value hierarchy. This group is determined based on the lowest level of the significant inputs used in fair value measurement as per the following:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices in level (1) which are observable for assets and liabilities, directly (such as prices) or indirectly (such as derived prices).

Level 3: Inputs for assets or liabilities, not based on observable market data (unobservable inputs).

All of the Group's assets and liabilities are recorded at amortized cost except for derivative financial instruments. Therefore, the fair value hierarchy has not been disclosed which requires the three levels of fair value.

The carrying amount Vs. the fair value

	Fair value measured as per hierarchy	31 December 2023 SR'000		31 December 2022 SR'000	
		Carrying amount	Fair value	Carrying amount	Fair value
Derivative financial instruments	Level 2	1,780	1,780	4,198	4,198

Derivative financial instruments are recoded at fair value using valuation techniques which use market's observable inputs.

The Group considers that the carrying amount of trade receivables, other current assets, cash and cash equivalents, Saudi Industrial Development Fund's financing, long term Islamic loans, lease liabilities, short term Islamic loans, trade payables, dividends payable, accrued expenses and other liabilities approximate their fair values.

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's risk management policies are established to identify and measure the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Group does not engage into hedging activities.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below:

31.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2023

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

31.2 Interest risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group manages its exposure to commission rate risk by continuously monitoring movements in interest rates.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings and derivative financial instruments affected, after the impact of hedge accounting, if any. With all other variables held constant, the Group's profit before zakat and tax is affected through the impact on floating rate borrowings, as follows:

		<i>Impact on profit before zakat and income tax</i>	
		<i>Increase in SR '000</i>	<i>Decrease SR'000</i>
31 December 2023	Change in rate 100 basis points	8,767	(8,767)
		<i>Impact on profit before zakat and income tax</i>	
31 December 2022	Change in rate	Increase in SR '000	Decrease SR'000
Variable rate financial instruments	100 basis points	(11,309)	11,309

31.3 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. Saudi Riyal is considered as the functional currency of the Group which is pegged against the United States Dollar. Therefore, the Group is only exposed to exchange rate fluctuations from transactions denominated in foreign currencies other than United States Dollar.

The Group has an overseas subsidiary in Egypt whose functional and presentation currency is United States Dollar however has certain receivables in Egyptian pound.

The following table details the sensitivity to a 5% increase and decrease in the Saudi Riyal towards its exposure of Egyptian Pound for its Egypt Operation against the Saudi Riyals which may have the following impact to the Group financial performance and there is no direct impact on the Company's equity other than the impact resulting from the effect on profit for the year.

		<i>Impact on profit before zakat and income tax</i>	
		<i>SR '000</i>	<i>SR'000</i>
2023	5%	285	(258)
2022	5%	310	(342)

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

31.4 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk on its cash and cash equivalents and trade receivables:

	2023 SR '000	2022 SR '000
Trade receivables	1,758,090	1,513,481
Due from related party	-	3,668
Cash at banks	133,199	90,371
	1,891,289	1,607,520

Trade receivables

Receivables credit risk is subject to the Group's established policy, procedures and control relating to receivables credit risk management. Receivables of the Group comprise primarily of Ministry of Health, other ministries, other government medical institutions, and certain high profile Saudi Arabian companies. The Group's management follows-up outstanding balances, and where appropriate, trade receivables are carried net of an allowance for credit loss. The management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment terms and conditions are offered. The credit terms are extended to customers where the Group does not expect any inability to pay.

The ministries and other government medical institutions are part of the Government of the Kingdom of Saudi Arabia, which has a strong credit rating in the Saudi market. The high profile Saudi Arabian companies also have a high credit rating in the Saudi market. The maximum exposure to credit risk associated with the Group's financial instruments is limited to the book values included in the consolidated statement of financial position of those respective financial instruments.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group considers a financial asset in default at various past due days depending on the classification of financial assets and their contractual payments terms.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

31 December 2023

			Past due			
	Total	Not past due	< 90	91 – 180	181 – 360	> 360
	SR '000	SR '000	days	days	days	days
Government receivables			SR '000	SR '000	SR '000	SR '000
Expected credit loss rate		0.04%	0.95%	1.38%	2.12%	24.76%
Gross trade receivables	1,100,145	683,049	32,976	30,367	25,591	328,162
Expected credit loss	82,811	284	313	420	543	81,251

31 December 2023

			Past due			
	Total	Not past due	< 90	91 – 180	181 – 360	> 360
	SR '000	SR '000	days	days	days	days
Private sector receivables			SR '000	SR '000	SR '000	SR '000
Expected credit loss rate		0.69%	2.18%	2.23%	2.93%	71.38%
Gross trade receivables	820,921	618,371	76,863	13,877	8,597	103,213
Expected credit loss	80,165	4,255	1,675	310	252	73,673

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

31.4 Credit risk (continued)

Trade receivables (continued)

31 December 2022

			<i>Past due</i>			
	<i>Total</i>	<i>Not past due</i>	<i>< 90</i>	<i>91 – 180</i>	<i>181 – 360</i>	<i>> 360</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>days</i>	<i>days</i>	<i>days</i>	<i>days</i>
			<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Government receivables						
Expected credit loss rate		0.06%	0.56%	0.82%	1.30%	16.46%
Gross trade receivables	1,065,586	609,864	45,084	48,682	124,453	237,503
Expected credit loss	41,727	367	253	401	1,618	39,088

31 December 2022

			<i>Past due</i>			
	<i>Total</i>	<i>Not past due</i>	<i>< 90</i>	<i>91 – 180</i>	<i>181 – 360</i>	<i>> 360</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>days</i>	<i>days</i>	<i>days</i>	<i>days</i>
			<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Private sector receivables						
Expected credit loss rate		0.07%	0.92%	2.87%	18.15%	68.67%
The carrying value of trade receivables	656,534	369,624	33,477	6,794	6,412	240,227
Expected credit loss	166,912	276	307	195	1,164	164,970

Cash at banks

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

31.5 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and lease contracts. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

31.5 Liquidity risk (Continued)

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	<i>On demand</i>	<i>Within one year</i>	<i>One to five years</i>	<i>More than five years</i>	<i>Total</i>
<i>As at 31 December 2023</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Lease liabilities	-	3,934	7,913	5,198	17,045
SIDF financing	-	29,000	219,000	130,500	378,500
Short-term Islamic loans	-	436,676	-	-	436,676
Long-term Islamic loans	-	99,608	340,392	-	440,000
Trade payables	1,505,245	-	-	-	1,505,245
Accrued expenses and other liabilities	186,411	-	-	-	186,411
Dividends payable	13,308	42,116	-	-	55,424
	<u>1,704,964</u>	<u>611,334</u>	<u>567,305</u>	<u>135,698</u>	<u>3,019,301</u>

	<i>On demand</i>	<i>Within one year</i>	<i>One to five years</i>	<i>More than five years</i>	<i>Total</i>
<i>As at 31 December 2022</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Lease liabilities	-	4,581	8,713	7,127	20,421
SIDF financing	-	29,000	219,000	130,500	378,500
Short-term Islamic loans	-	689,961	-	-	689,961
Long-term Islamic loans	-	35,000	369,706	35,294	440,000
Trade payables	1,148,417	-	-	-	1,148,417
Accrued expenses and other liabilities	131,339	-	-	-	131,339
Dividends payable	13,308	42,158	-	-	55,466
	<u>1,293,064</u>	<u>800,700</u>	<u>597,419</u>	<u>172,921</u>	<u>2,864,104</u>

32. CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders. The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2023 and 31 December 2022.

33. CONTINGENT LIABILITIES AND COMMITMENTS

33.1 Contingent liabilities

The Group has contingent liabilities from time to time relating to certain disputed matters, including claims from and against contractors, litigation and arbitration proceedings involving a variety of cases. These contingent liabilities arose in the normal course of business. No additional significant obligations are expected to be incurred from these potential claims.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2023

33. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

33.2 Commercial and capital commitments

As at 31 December 2023, the Group had outstanding letters of guarantee amounting to SR 435.9 million (31 December 2022: SR 377.6 million), issued in the normal course of business of the Group.

As at 31 December 2023, the Group has outstanding letters of credit amounting to SR 286.6 million (31 December 2022: SR 37.7 million), and capital commitments outstanding as at 31 December 2023 in respect of capital work in progress projects of SR 16.8 million (31 December 2022: SR 117.8 million).

34. DIVIDENDS

The Company's Ordinary General Assembly In its meeting held on 3 Thul-Hijjah 1444H (corresponding to 21 June 2023), authorized the Board of Directors to distribute interim profits on a quarterly or semi-annual basis for the fiscal year 2023. It was also approved to pay the Board of Directors' remuneration for the fiscal year ending in 31 December 2022 in the amount of SR 2,250,000.

The Board of Directors, in its meeting held on 12 Jumada Al Alkirah 1445H (corresponding to 25 December 2023), approved a dividend of SR 42,160,000 for the period ending on 30 September 2023.

The Company's Ordinary General Assembly In its meeting held on 10 Shawwal 1443H (corresponding to 11 May 2022), authorized the Board of Directors to distribute interim profits on a quarterly or semi-annual basis for the fiscal year 2022. It was also approved to pay the Board of Directors' remuneration for the fiscal year ending in 31 December 2022 in the amount of SR 2,020,800.

The Board of Directors, in its meeting held on 24 Jumada Al Awal 1444H (corresponding to 18 December 2022), approved a dividend of SR 42,160,000 for the period ending on 30 September 2022.

35. COMPARATIVE FIGURES

Certain comparative figures for the previous year have been reclassified to conform to the current year's presentation.

36. SUBSEQUENT EVENTS

On 2 January 2024, subsequent to the end of the reporting period, an accident occurred in a reactor in a production line belonging to a factory of a subsidiary (Saudi Chemical Company Limited) in Atshanah due to an explosion.

Management is currently evaluating the overall impact on the consolidated financial statements, but preliminary estimates indicate potential physical damage and associated losses of approximately SR 10 million. These estimates are subject to change as more information becomes available.

As the event occurred after the reporting period, it did not impact the consolidated financial statements for the year ended 31 December 2023. Accordingly, the financial effects of this incident have not been adjusted in the financial statements for the year ended 31 December 2023.

In management's opinion, there has been no other subsequent events since 31 December 2023 that would have a material impact on the consolidated financial position or consolidated financial performance of the Group as reflected in these consolidated financial statements.

37. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been approved by the Board of Directors of the Group on 27 Sha'ban 1445H (corresponding to 8 March 2024).