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شركة آر إس إم المحاسبون المتحدون للإستشارات المهنية
RSM Allied Accountants Professional Services Co.

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

Interim condensed consolidated financial statements (unaudited)
For the three -month period ended March 31, 2023
and the independent auditor's report on the review of the condensed interim consolidated
financial statements

Saudi Ceramic Company
(Saudi Joint Stock Company)

Interim condensed consolidated financial statements (unaudited).
For the three -month period ended March 31, 2023

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Independent Auditor's Review Report On the interim condensed consolidated financial statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Ceramic Company, (Saudi Joint Stock Company) ("the Company"), and its subsidiary together (collectively referred to as "the Group") as of March 31, 2023, and the interim condensed consolidated statements of profit or loss and other comprehensive income for the three -month period ended March 31, 2023, the statement of changes in equity, and interim condensed consolidated statement of cash flows for the three-months period ended on that date. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard (34), "Interim Financial Reporting" that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements (2410), "Review of interim financial information performed by the independent auditor of the entity", as endorsed in the Kingdom of Saudi Arabia. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements as of March 31, 2023 are not prepared in all material respects, in accordance with International Accounting Standard (34) "Interim Financial Reporting", as endorsed in the Kingdom of Saudi Arabia.

RSM Allied Accountants Professional Service



Mohammed Bin Farhan Bin Nader
License No. 435
Riyadh, Saudi Arabia
Ramadan 26, 1444 H (corresponding to April 17, 2023).



Saudi Ceramic Company
(Saudi Joint Stock Company)

Interim condensed consolidated statement of financial position (unaudited)

As at March 31, 2023

(In Saudi Riyals Thousand)

	Note	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Assets			
Non-current assets			
Property, plant and equipment, net	7	1,649,793	1,611,045
Right of use assets, net		82,485	87,532
Investment in associate		9,187	9,054
Financial assets at fair value through OCI		7,421	7,421
Total non-current assets		1,748,886	1,715,052
Current assets			
Inventory, net		991,940	957,439
Accounts receivable, net, prepaid expenses, and other assets		383,759	311,184
Cash and cash equivalents		30,863	70,693
Derivative financial instruments through Profit and Loss		3,765	6,647
		1,410,327	1,345,963
Assets held for sale	18	5,261	-
Total current assets		1,415,588	1,345,963
Total assets		3,164,474	3,061,015
Equity and liabilities			
Equity			
Share capital	8	800,000	800,000
Statutory reserve		241,715	241,715
Fair value reserve		3,196	3,196
Treasury shares	9	(529)	(2,663)
Retained earnings		682,176	707,454
Total equity attributable to the shareholders		1,726,558	1,749,702
Non-controlling interest		36,158	36,770
Total equity		1,762,716	1,786,472
Liabilities			
Non-current liabilities			
Long-term loans, non-current portion	11 - 1	289,491	282,805
Lease liability, non-current portion		63,419	68,712
Defined employees' benefit plan obligations		91,657	90,868
Total non-current liabilities		444,567	442,385
Current liabilities			
Short term loans	11 - 2	271,744	160,551
Long-term loans, current portion	11 - 1	245,695	211,938
Lease liability, current portion		13,732	13,444
Accounts payable, accruals, and other liabilities		389,247	416,044
Zakat provision	12	36,773	30,181
Total current liabilities		957,191	832,158
Total liabilities		1,401,758	1,274,543
Total equity and liabilities		3,164,474	3,061,015

The accompanying notes from (1) to (21) form an integral part of these interim condensed consolidated financial statements

Abdulaziz Abdulkareem Alkhuraji Vice Chairman of the Board	Majid Abdullah Alissa Chief Executive Officer	Waleed Al-Bassam Chief Financial Officer
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Saudi Ceramic Company
(Saudi Joint Stock Company)

Interim condensed consolidated statement of profit or loss and other comprehensive income (unaudited)
For the three -month period ended March 31, 2023
(In Saudi Riyals Thousand)

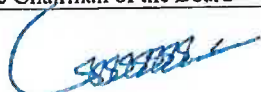
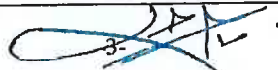
	Note	For the three -month period ended March 31	
		2023 (Unaudited)	2022 (Unaudited)
Profit or loss			
Revenues, net	13	368,890	396,153
Cost of revenues		(278,768)	(274,165)
Gross profit		90,122	121,988
Selling and marketing expenses		(50,470)	(51,177)
General and administrative expenses		(17,195)	(16,719)
Provision for expected credit loss		(1,194)	(778)
Net profit from main operations		21,263	53,314
Financing costs, net		(8,633)	(5,702)
Other income		7,925	8,695
Group's share from associate's profit		133	-
Net profit for the period before zakat		20,688	56,307
Zakat		(6,592)	(6,074)
Net profit for the period		14,096	50,233
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement of income on defined employees' benefit plan obligations		-	121
Total other comprehensive income for the period		-	121
Total comprehensive income for the period		14,096	50,354
Basic and diluted earnings per share (SAR)	16 - 1	0.18	0.64
Net profit for the period attributed to:			
Shareholders of the parent company		14,708	51,294
Non-controlling interest		(612)	(1,061)
Total profit for the period		14,096	50,233
Total comprehensive income for the period attributed to:			
Shareholders of the parent company		14,708	51,384
Non-controlling interest		(612)	(1,030)
Total comprehensive income for the period		14,096	50,354

The accompanying notes from (1) to (21) form an integral part of these interim condensed consolidated financial statements

Abdulaziz Abdulkareem Alkhuraiji
Vice Chairman of the Board

Majid Abdullah Alissa
Chief Executive Officer

Waleed Al-Bassam
Chief Financial Officer


Saudi Ceramic Company
(Saudi Joint Stock Company)

Interim condensed consolidated statement of changes in equity (unaudited)
For the three -month period ended March 31, 2023
(In Saudi Riyals Thousand)

	Share capital	Statutory reserve	Fair value reserve	Treasury shares	Retained earnings	Total equity attributable to the shareholders	Non-controlling interest	Total
For the three -month period ended March 31, 2022 (Unaudited)								
Balance as of January 1, 2022	800,000	241,715	3,762	(3,870)	630,112	1,671,719	40,383	1,712,102
Net profit (loss) for the period	-	-	-	-	51,294	51,294	(1,061)	50,233
Other comprehensive income	-	-	-	-	89	89	32	121
Total comprehensive income (loss) for the period	-	-	-	-	51,383	51,383	(1,029)	50,354
Dividend paid	-	-	-	-	(59,877)	(59,877)	-	(59,877)
Issuance of bonus shares	-	-	-	1,207	-	1,207	-	1,207
Balance as of March 31, 2022	800,000	241,715	3,762	(2,663)	621,618	1,664,432	39,354	1,703,786
For the three -month period ended March 31, 2023 (Unaudited)								
Balance as of January 1, 2023	800,000	241,715	3,196	(2,663)	707,454	1,749,702	36,770	1,786,472
Net profit for the period	-	-	-	-	14,708	14,708	(612)	14,096
Other comprehensive income for the period	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	14,708	14,708	(612)	14,096
Issuance of treasury shares	-	-	-	2,134	-	2,134	-	2,134
Dividend paid (note 10)	-	-	-	-	(39,986)	(39,986)	-	(39,986)
Balance as of March 31, 2023	800,000	241,715	3,196	(529)	682,176	1,726,558	36,158	1,762,716

The accompanying notes from (1) to (21) form an integral part of these interim condensed consolidated financial statements

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

Saudi Ceramic Company
(Saudi Joint Stock Company)

Interim condensed consolidated statement of cash flows (unaudited)
For the three -month period ended March 31, 2023
(In Saudi Riyals Thousand)

	For the three -month period ended March 31	
	2023 (Unaudited)	2022 (Unaudited)
Cash flows from operating activities		
Net profit for the period before zakat	20,688	56,307
Adjustments to reconcile net profit for the period before zakat to net cash provided by operating activities		
Depreciation of property, plant, and equipment	30,236	29,851
(Gain) /loss on disposal of property, plant, and equipment	(7)	6
Depreciation of right of use assets	5,047	3,129
Provision charged for expected credit losses	1,194	747
Provision used from charged for damaged, obsolete, and slow-moving inventory	(9)	(195)
Financing costs	9,367	4,528
Defined employees' benefit plan obligations charged	3,218	2,808
Change in financial derivatives	2,882	-
Share of profit of associate	(133)	-
	<u>72,483</u>	<u>97,181</u>
Changes in operating assets and liabilities		
Accounts receivable, prepaid expenses, and other assets	(73,769)	(76,118)
Inventory, net	(34,492)	(62,413)
Account payable, accruals, and other liabilities	(26,226)	59,605
Defined employees' benefit plan obligations paid	(2,393)	(1,346)
Net cash (used in)/ provided by operating activities	<u>(64,397)</u>	<u>16,909</u>
Cash flows from investing activities		
Purchase of property, plant, and equipment	(74,260)	(18,545)
Proceeds from the disposal of property, plant, and equipment	22	-
Net cash used in investment activities	<u>(74,238)</u>	<u>(18,545)</u>
Cash flows from financing activities		
Net change in short-term loans	111,193	55,000
Net change in long-term loans	40,443	(3,474)
Dividend paid	(39,986)	(59,877)
Treasury shares issued	2,134	1,207
Lease obligations paid	(5,005)	(821)
Financing costs paid	(9,974)	(1,632)
Net cash provided by /(used in) financing activities	<u>98,805</u>	<u>(9,597)</u>
Net change in cash and cash equivalents	<u>(39,830)</u>	<u>(11,233)</u>
Cash and cash equivalents at the beginning of the period	<u>70,693</u>	<u>109,646</u>
Cash and cash equivalents at the ending of the period	<u><u>30,863</u></u>	<u><u>98,413</u></u>

The accompanying notes from (1) to (21) form an integral part of these interim condensed consolidated financial statements

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

Saudi Ceramic Company
(Saudi Joint Stock Company)

Notes to interim condensed consolidated financial statements (unaudited)
For the three -month period ended March 31, 2023

1 - Organization and Activities

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

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

- B- The condensed interim consolidated financial statements as of March 31, 2023 include the activities of the parent company and the following subsidiaries (the company and its subsidiaries hereinafter shall be referred to as the "Group").

Subsidiary company	Main operation	Ownership percentage as at	
		March 31, 2023	Dec 31, 2022
Ceramics pipes company	Import and export, wholesale and retail trading of clay pipes	73.89%	73.89%
Arzan company *	Operation and maintenance	100%	100%
Ceramic Investment Company(CIC) **	Marketing services, wholesale and retail trading	98.694%	98.69%

* Arzan and Ceramic investment company have not start commercial operations until 31 March 2023.

** The ownership percentage of the Saudi Ceramic Company is represented in the Ceramic Investment Company "98.694%", and the ownership percentage consists of 95% directly and 3.694% indirectly, which is the percentage of ownership through the Ceramic Pipes Company.

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

The performance of the Group for the three-month period ended March 31, 2023, is not necessarily accurate indicative of the results that may be expected for the financial year ending December 31, 2023.

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

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023

2 - Basis of preparing interim condensed consolidated financial statements

Statement of Compliance

These Interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard IAS 34 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants and should be read in conjunction with the company's last annual Financial Statements for the year ended December 31, 2022 and they do not include all of the information normally required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards. However, accounting policies and selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the company's last consolidated financial position and consolidated performance.

Basis of consolidation of condensed interim financial statements

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

Basis of measurement

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

Functional and presentation currency

These interim condensed consolidated financial statements are presented in Saudi Arabian Riyal which is the functional currency of the company and are rounded to the nearest Saudi riyal.

Significant accounting judgment, estimates, and assumptions.

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

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023

2 - Basis of preparing interim condensed consolidated financial statements (continued)

Significant accounting judgment, estimates, and assumptions (continued).

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

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

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

Impairment of non-financial assets

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

Impairment of receivables

An estimate of the collectible amount of accounts receivable is made when it is not possible to collect the full amount. For individually significant amounts, this estimation is performed on an individual basis. Amounts that are not individually significant and overdue are assessed collectively, and a provision is formed for them according to the length of time overdue.

Impairment of inventory

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

Employee benefits

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

3 - Changes in significant accounting policies

The accounting policies applied to these condensed interim consolidated financial statements are the same as those applied to the consolidated financial statements for the year ended December 31, 2022, as there are no new standards that were issued, however, a number of amendments to the standards are effective from January 1, 2023, which have been explained in the annual financial statements of the company, but it does not have a material effect on the condensed interim consolidated financial statements of the group.

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023

4 - Summary of significant accounting policies

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

Property, plant and equipment

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

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

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

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

Right of use assets and leases obligations

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

The assets and liabilities arising from the lease contract are initially measured on the basis of the present value of the unpaid lease payments on the inception date of the contract, and the incremental borrowing rate of the group is used.

Investments in associates

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

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023

4 - Summary of significant accounting policies (Continued)

Financial instruments

Recognition and de-recognition

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

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

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

Classification and Initial measurement of financial assets

All financial assets are initially measured at fair value adjusted for transaction costs (if any).

Financial assets - other than those designated and effective as hedging instruments - are classified into the following categories:

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

The classification category is determined by:

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

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

Subsequent measurement of financial assets

Financial assets at the amortized cost

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

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

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

Financial assets at fair value through profit or loss

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

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

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023

4 - Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets at fair value through other comprehensive income

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

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

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

Impairment of financial assets

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

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

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

- Financial instruments not had a significant credit quality deterioration since initial recognition, or that have low credit risk (level 1).
- Financial instruments whose credit quality has significantly decreased since initial recognition and whose credit risk is not low (level 2).
- level 3 covers financial assets that have objective evidence of impairment at the condensed interim reporting date. However, none of the company's assets fall into this category.

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

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

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

Disposal of financial assets

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

Financial liabilities

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

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023

4 - Summary of significant accounting policies (continued)

Inventory

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

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Account receivables

Account receivables are amounts due from customers for products sold in the ordinary course of business. Account receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for expected credit loss in value, which is recognized in the condensed interim consolidated statement of profit or loss.

Cash and cash equivalents

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

Related parties

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

Loans

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

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

Borrowing costs

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

Employees' benefits

- End of service benefits

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

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023

4 - Summary of significant accounting policies (continued)

Employees' benefits (continued)

- Retirement benefits

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

- Short-term employee's benefits

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

Provisions

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

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

Account payables and accruals

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

Accrued dividends

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

Zakat provision

- Estimated zakat is an obligation on the Group and it is recorded in the condensed interim consolidated financial statements by charging it to the condensed interim consolidated statement of profit or loss in accordance with the standard of zakat and the opinion issued by the by the Saudi Organization for Chartered and Professional Accountants, where it is calculated for the year in estimation according to the accrual basis.
- Zakat is computed at the end of the year on the basis of the adjusted net income or the Zakat base, whichever is greater, according to the regulations of the Zakat, Tax, and Customs Authority in the Kingdom of Saudi Arabia.
- Differences between the provision and the final assessment are recorded in the year in which the assessment is received.

Withholding tax

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

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023

4 - Summary of significant accounting policies (continued)

Value added Tax

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

Revenue recognition

Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

The group recognizes revenue when it transfers control over a product or service to a customer. The principles in IFRS 15 are applied using the following five steps:

- 1- Defining the contract with the customer: A contract is defined as an agreement between two or more parties that creates enforceable rights or obligations and defines the criteria that must be met.
- 2- Defining performance obligations in the contract: A performance obligation is a promise with a customer to transfer a good or provide a service.
- 3- Determining the transaction price: the transaction price is the amount of consideration that the group expects to achieve in return for transferring the promised goods or services to the customer, excluding the amounts collected
- 4- Allocate transaction price to performance obligations in the contract: For a contract that contains more than one performance obligation, the group will allocate the transaction price to each performance obligation in an amount that specifies the amount of consideration that the group makes, specifying the amount of consideration that the group expects to receive in exchange for fulfillment with all commitment.
- 5- Recognize revenue when (as) the entity satisfies the performance obligation.

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

Cost of revenue

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

Selling and marketing expenses

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

General and administrative expenses

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

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023

4 - Summary of significant accounting policies (continued)

Contingent Liability

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

Segment information

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

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

Earnings per share

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

Foreign currency transactions

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

Non-monetary items are not retranslated at the end of each year, but are measured at historical cost (converted using the exchange rates at the date of the transaction), with the exception of non-monetary items measured at fair value, which are converted using the exchange rates at the date on which the fair value was determined.

Assets held for sale

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

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

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

5 - Interim financial results for the period

The group management has prepared all the adjustments that are material in order to present the condensed interim consolidated financial statements fairly as at March 31, 2023 and the results of its condensed interim consolidated operations for the period ending on that date. The condensed interim consolidated financial results for that period may not represent an accurate indication of the financial results for the entire year.

Saudi Ceramic Company
(Saudi Joint Stock Company)

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023
(In Saudi Riyals Thousand)

6 - Operating segments

6-1 Information about reportable segments

	Ceramic tiles and sanitary ware	Water heaters	Ceramic pipes	Total
<u>For the three -month period ended March 31, 2023 (Unaudited)</u>				
External revenues	247,353	114,522	7,015	368,890
Inter-segment revenue	9,890	-	-	9,890
Segment profit / (loss) before zakat (Note 6-2)	16,843	5,890	(2,045)	20,688
<u>As of March 31, 2023 (Unaudited)</u>				
Segment assets	2,639,464	282,777	242,233	3,164,474
Segment liabilities	1,124,483	165,900	111,375	1,401,758
<u>For the three -month period ended March 31, 2022 (Unaudited)</u>				
External revenues	287,534	104,259	4,360	396,153
Inter-segment revenue	9,882	-	-	9,882
Segment profit (loss) before zakat (Note 6-2)	46,441	13,636	(3,770)	56,307
<u>As of 31 December 2022 (Audited)</u>				
Segment assets	2,523,115	296,248	241,652	3,061,015
Segment liabilities	1,009,069	157,025	108,449	1,274,543

6-2 Reconciliation of reportable segments profit or loss

	<u>For the three -month period ended</u>	
	<u>March 31, 2023</u>	<u>March 31, 2022</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>
Total profit before zakat from reportable segments	20,555	56,307
Share of profit of associate, net of zakat	133	-
	<u>20,688</u>	<u>56,307</u>

6-3 Seasonality of operations

The electric water heater segment of the Group is subject to seasonal fluctuations due to changes in the seasons. In particular, the use of electric water heaters is negatively affected during the summer season (from April to September), and the group tries to reduce the seasonal impact by managing inventory. However, this sector usually has lower returns and profits for the second and third quarters of each year.

For the twelve-month period ended 31 March 2023, the water heater segment reported revenue of SR 409 million (twelve-month period ended 31 March 2022: SR 355 million) and the sector achieved a net profit before zakat amounting to 40.3 million Saudi riyals (the twelve months ended March 31, 2022: 59.1 million Saudi riyals).

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023
(In Saudi Riyals Thousand)

7- Property, plant and equipment, net

During the three-month period ended 31 March 2023, the Group acquired property, plant and equipment including capital work-in-progress with a cost of SR 74.3 million (three-month period ended 31 March 2022: SR 18.5 million).

During the three-month period ended 31 March 2023, the Group disposed the property, plant and equipment with a carrying amount of SR 7,627 (three-month period ended 31 March 2022: SR 6,000) which resulted in a income of SR 6,550 (three-month period ended 31 March 2022: gain of SR 6,000) and these gains or losses are included in the "other income" in the Interim consolidated statement of profit or loss and other comprehensive income

8- Share Capital

	March 31, 2023 (Unaudited)	Dec 31, 2022 (audited)
Authorized ordinary shares of SR 10 each (Shares in "000")	80,000	80,000
Fully paid ordinary shares of SR 10 each (Shares in "000")	80,000	80,000
Value of issued ordinary shares each (SAR "000")	800,000	800,000

9- Treasury shares

The group previously purchased 500,000 treasury share during 2019 to distribute to the employee, according to the plan approved by the Board of Directors. During the three-month period ended March 31, 2023, the Group transferred treasury shares amounting to SAR 2.13 million against cash received. the shares were immediately transferred. No gain or loss was recognized in this transaction and the cash consideration received was the average cost of the shares disposed of.

10- Dividend distributions

The Board of Directors of the Saudi Ceramic Company decided, in The Board of Directors of the Saudi Ceramic Company, in its meeting held on February 21, 2023 (corresponding to Sha'ban 1, 1444AH) , decided to approve the distribution of cash dividends amounting to SAR 39.9 million to the Company's shareholders for the second half of the year 2022 and the dividends were paid on 28 march 2023.

11- Loans

11-1 Long-term Loans

	Year of maturity	March 31, 2023 (Unaudited)	December 31, 2022 (audited)
Balance, beginning of the period / year		494,743	657,519
Receipts during the period / year		66,000	-
Payments during the period / year		(25,557)	(162,776)
Balance, ending of the period / year	2025	535,186	494,743
current portion		245,695	211,938
non-current portion		289,491	282,805

11-1-1 Loan covenants

The loan agreements (among other things) contain terms related to the Group's commitment to certain ratios and financial terms. As of March 31, 2023, Ceramics pipes company (subsidiary company) did not comply with some of the terms of the loan agreements and accordingly the non-current portion of the loan was reclassified to current liabilities.

Saudi Ceramic Company
(Saudi Joint Stock Company)

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023
(In Saudi Riyals Thousand)

11- Loans (continued)

11-2 Short term loans

Short term loans represent Islamic Murabaha loans granted to the Group by local commercial banks, loans charges are determined based on the basis of market prices. These loans are guaranteed by promissory notes in favor of the banks for the loan exposure. During the three-month period ended 31 March 2023, SAR 111 million (three month period ended March 31, 2022: SAR 55 million) short term loans were received and no repayment were made during the period ended 31 March 2023.

12- Zakat provision

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

Saudi ceramic company

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

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

Ceramics investment Company

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

Arzan company

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

Ceramics pipes company

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

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023
(In Saudi Riyals Thousand)

13- Revenues

The Group's operations and main revenue streams are same as those described in the Group's consolidated financial statements for the year ended 31 December 2022. The Group's revenues are derived from contracts with customers and control of the products is transferred at a point in time when the goods are delivered to customers.

Classification of revenue from contracts with customers

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

For the three -month period ended March 31, 2023 (Unaudited)				
	Ceramic tiles and sanitary ware	Water heaters	Ceramic pipes	Total
Segment revenue	257,243	114,522	7,015	378,780
Inter-segment revenue	(9,890)	-	-	(9,890)
Revenue from external customers	247,353	114,522	7,015	368,890
Primary geographical markets				
Local	239,333	96,264	7,015	342,612
External	8,020	18,258	-	26,278
	247,353	114,522	7,015	368,890
Timing of revenue recognition				
At point in time	247,353	114,522	7,015	368,890
For the three -month period ended March 31, 2022 (Unaudited)				
	Ceramic tiles and sanitary ware	Water heaters	Ceramic pipes	Total revenue
Segment revenue	297,416	104,259	4,360	406,035
Inter-segment revenue	(9,882)	-	-	(9,882)
Revenue from external customers	287,534	104,259	4,360	396,153
Primary geographical markets				
Local	280,535	90,346	4,360	375,241
External	6,999	13,913	-	20,912
	287,534	104,259	4,360	396,153
Timing of revenue recognition				
At a point in time	287,534	104,259	4,360	396,153

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023
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14- Financial Instruments

14-1 Accounting classification and fair values

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

	Carrying amount				Fair Value			
	Fair value hedging instrument	Financial assets at FVTOCI	Amortized cost	Total	Level 1	Level 2	Level 3	Total
As at 31 March 2023 (Unaudited)								
Financial assets								
Financial assets at FVTOCI	-	7,421	-	7,421	-	-	7,421	7,421
Account receivables, prepaid expenses and other assets	-	-	383,759	383,759	-	-	-	-
Cash and Cash equivalents excluding cash in hand	-	-	29,942	29,942	-	-	-	-
Derivative Financial Instrument	3,765	-	-	3,765	-	-	3,765	3,765
	3,765	7,421	413,701	424,887	-	-	11,186	11,186
Financial liabilities								
Short-term loans	-	-	271,744	271,744	-	-	-	-
Long-term loans	-	-	535,186	535,186	-	-	-	-
Account payables	-	-	389,247	389,247	-	-	-	-
	-	-	1,196,177	1,196,177	-	-	-	-

Notes to interim condensed consolidated financial statements (unaudited) (continued)

For the three -month period ended March 31, 2023

(In Saudi Riyals Thousand)

14- Financial Instruments (continued)

14-1 Accounting classification and fair values (continued)

	Fair value – hedging instruments	Carrying amount		Fair value		
		Financial assets at FVOCI	Amortized cost	Level 1	Level 2	Level 3
31 December 2022 (audited)						
Financial assets						
Financial assets at FVOCI	-	7,421	-	-	-	7,421
Trade and other receivables	-	-	311,184	-	-	-
Cash and cash equivalents excluding cash on hand	-	-	69,796	-	-	-
Derivative Financial Instruments	6,647	-	-	-	-	6,647
	6,647	7,421	380,980	-	-	14,068
			395,048			14,068

Financial liabilities

Short-term loans	-	-	160,551	-	-	-
Long-term loans	-	-	494,743	-	-	-
Trade payables excluding accrued expenses and others	-	-	243,206	-	-	-
	-	-	898,500	-	-	-
			898,500			-

14-2 Transfers between levels of fair value hierarchy

There were no transfers between levels of fair value hierarchy in either direction during the three-month period ended 31 March 2023. There were also no changes made to any of the valuation techniques applied as of 31 December 2022.

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023
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14- Financial Instruments (continued)

14-3 Level 3 Fair Value

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

Financial assets at FVOCI

	March 31, 2023 (Unaudited)	December 31, 2022 (audited)
Balance, beginning of the period/year	7,421	7,987
Unrealized gain recognized in OCI	-	(566)
Balance, ending of the period/year	7,421	7,421

15- Related party transactions and balances

There are transactions incurred during the year with related parties within the normal business of the group and with the approval of the Board of Directors, and the Board of Directors believes that the conditions of those transactions do not differ materially from any other transactions that the management made with any third party,

A- The significant transactions and balances with related parties are as follows:

<u>Related party /Nature of transaction</u>	<u>Transaction amount for</u> <u>the three-month ended on</u>		<u>Balances as at</u>	
	March 31, 2023 (Unaudited)	March 31, 2022 (Unaudited)	March 31, 2023 (Unaudited)	December 31, 2022 (audited)
Associate – Natural Gas Distribution Company				
Purchase of goods and services	11,642	11,084	7,722	7,475
Others				
Purchase of goods and services	748	634	547	1,265

16. Earning per share

16-1 Basic earnings per share

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

	For the three-month period ended	
	March 31, 2023 (Unaudited)	March 31, 2022 (Unaudited)
Profit for the period attributable to the shareholders (SAR "000")	14,708	51,294
Weighted average number of shares (Shares in "000")	79,822	79,760
Basic and diluted earnings per share (SR)	0.18	0.64

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023
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16. Earning per share (continued)

16-1 Basic earnings per share (continued)

16-1-1 Number of shares

Weighted average number of shares are adjusted to take account of Treasury Shares. (Note-9).

16-2 Diluted earnings per share

The calculation of diluted earnings per ordinary share is based on net profit attributable to ordinary shareholders of the Group and weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares. There were no potentially dilutive shares outstanding at any time during the period ended March 31, 2023.

17. Financial instruments, risk management and fair value

Fair value

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

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

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

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

Level one: the quoted market prices in active markets for the same financial instruments.

Level two: valuation techniques that depend on inputs that affect the fair value and can be directly or indirectly observed in the market.

Level three: Valuation techniques that depend on inputs that affect the fair value that cannot be directly or indirectly observed in the market.

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

Capital risk management

The Group manages its capital to ensure that the Group will continue as a going concern, while obtaining the highest return through the optimum level of debt and equity balances. The overall corporate strategy has not changed since the year 2022.

The Group's capital structure includes the equity attributable to the shareholders of the group, which consists of capital, reserves, retained earnings as they are included in the statement of changes in equity

Financial risk management

The group's activities may be exposed mainly to financial risks resulting from the following.

- Foreign currency risk management

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

- Interest rate risk management

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

Notes to interim condensed consolidated financial statements (unaudited) (continued)
For the three -month period ended March 31, 2023
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17- Financial instruments, risk management and fair value (continued)

Financial risk management (continued)

- Credit risk

It is the inability of one party to fulfil its obligations, which leads to the other party incurring a financial loss. The Group is exposed to credit risk on its bank balances and receivables as follows:

	March 31, 2023 (Unaudited)	Dec 31, 2022 (Unaudited)
Accounts receivables	383,759	311,184
Cash and cash equivalents excluding cash in hand	29,942	69,796
	413,701	380,980

- Liquidity Risk

Liquidity risk is the difficulty that an entity will encounter in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value

Liquidity risk is managed by monitoring it on a regular basis to ensure the availability of funds necessary to meet the future obligations of the group.

18 -Assets held for sale

On march 19, 2023, the Company announced on Tadawul its decision to sell its property having an area of 5,728 square meters in Al-Rakah neighborhood in Al-Khobar Governorate of Eastern Province of Kingdom of Saudi Arabia. The property is currently not used for the company's operations and no income generated from. The sale of property is expected to be completed in Q2 of 2023 .

19 -Contingent liabilities and outstanding issues

- A- The Group has obtained bank facilities in the form of letters of guarantee and letter of credits from local banks amounting to SAR 151 million as of 31 March 2023 (31 December 2022: SAR 173 million).
- B- The letters of credit include an amount of SAR 23.6 million (31 December 2022: SAR 146 million) related to capital commitments for the supply of machinery and equipment for the factory expansion project.
- C- The Group guarantees a portion of Saudi Industrial Development Fund granted to Ceramic Pipes Company (Subsidiary company) equivalent to the share in the company's capital, the guarantee amounts SAR 29 million as of March 31, 2023 (Dec 31, 2022: SAR 29 million) as well as the group guarantees a portion of Saudi Investment Bank loan granted to Ceramic Pipes Company (Subsidiary Company) amounted SAR 9.3 million as of March 31, 2023 (Dec 31, 2022: SAR 9.3 million).

20 -Subsequent events

On April 2023, the Group completed the sale transaction for the property classified as held for sale (Note 18).

21 -Approval of condensed interim consolidated financial statements

The condensed interim consolidated financial statements were approved by the Executive Committee under the authority of the Board of Directors after the recommendation of the members of the audit committee to approve them on Ramadan 25, 1444 AH (corresponding to April 16, 2023).