

**SAUDI AZM FOR COMMUNICATION AND
INFORMATION TECHNOLOGY COMPANY
AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
30 JUNE 2023**

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S
REPORT
30 JUNE 2023

Index	Page
Independent auditor's report	1 – 4
Consolidated statement of financial position	5
Consolidated statement of comprehensive income	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	8-9
Notes to the consolidated financial statements	10-55



Ernst & Young Professional Services (Professional LLC)
Paid-up capital (SR 5,500,000 – Five million five hundred thousand Saudi Riyal)
Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

C.R. No. 1010383821

Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730

ey.ksa@sa.ey.com
ey.com

Independent Auditor's Report

**To the Shareholders of Saudi AZM For Communication and Information Technology Company
(A Saudi Joint Stock Company)**

Opinion

We have audited the consolidated financial statements of Saudi AZM for Communication and Information Technology Company (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 30 June 2023, and the 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 a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 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 ("IFRS as endorsed by SOCPA").

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 Company 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 financial statements, and we have fulfilled our other ethical responsibilities in accordance with this 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 year. 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 the 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 matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report
To the Shareholders of Saudi AZM for Communication and Information Technology Company
(A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition</p> <p>The Group's revenue mainly comprises of sale of technology services and products totaling SR 190.3 million for the year ended 30 June 2023.</p> <p>We considered this as a key audit matter due to the application of revenue recognition in accordance with IFRS as endorsed by SOCPA requires key judgment and estimates by management, in particular with respect to estimating the stage of completion and the expected time to complete.</p> <p>Additionally, there are certain inherent risk associated with revenue, which mainly relates to customers' long-term contracts and the materiality of the amounts involved.</p> <p>Refer to note 3 for the accounting policy related to revenue recognition and note 15 for the related disclosures.</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> • Obtained an understanding of the process of recognizing various revenue flows. • Assessed the Group's revenue recognition policy for compliance with IFRS as endorsed by SOCPA. • Performed analytical procedures by comparing expectations of revenue with the actual results and analysed the variances. • In relation to the criteria followed by the management to determine the appropriate level of revenue to be recognised we have on sample basis performed the following: <ul style="list-style-type: none"> - Evaluated management assessment related to performance obligations in line with the terms and conditions of contracts with customers; - Traced the transaction price to underlying contracts, on sample basis as executed with customers; - Evaluated management assessment to allocate transaction price to identified performance obligations; and - Evaluated whether the performance obligations are satisfied over period of time or at a point in time. • Assessed the adequacy of the relevant disclosures in the consolidated financial statements.



Independent Auditor's Report

**To the Shareholders of Saudi AZM for Communication and Information Technology Company
(A Saudi Joint Stock Company) (continued)**

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. The Board of Directors 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.

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

The Board of Directors 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 the Board of Directors 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, the Board of Directors 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 the Board of Directors 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.



Independent Auditor's Report

To the Shareholders of Saudi AZM for Communication and Information Technology Company
(A Saudi Joint Stock Company) (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' 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 year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report 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

Saad M. Al-Khathlan
Certified Public Accountant
License No. (509)

Riyadh: 13 Rabi Al-Awwal 1445H
28 September 2023



**SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023**

	Notes	30 June 2023 SR	30 June 2022 SR
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	7,068,603	7,109,744
Right-of-use asset	7	8,354,568	9,577,188
Intangible assets	8	806,988	471,854
Investment in an associate	9	2,316,164	789,258
Investment in finance lease	10	3,857,280	4,529,280
Financial assets at fair value through other comprehensive income	11	1,770,881	1,883,524
Financial assets at amortized cost	12	24,995,169	-
TOTAL NON-CURRENT ASSETS		49,169,653	24,360,848
CURRENT ASSETS			
Current portion of investment in finance lease	10	672,000	672,000
Due from related parties	14	1,137,210	1,280,993
Contract assets	15	20,538,603	13,442,711
Financial assets at fair value through profit or loss	13	25,019,473	17,000,000
Trade receivables	16	23,919,701	11,203,046
Prepayments and other current assets	17	10,807,365	12,415,235
Bank balances	18	27,595,279	27,221,636
TOTAL CURRENT ASSETS		109,689,631	83,235,621
TOTAL ASSETS		158,859,284	107,596,469
EQUITY AND LIABILITIES			
Share capital	19	30,000,000	30,000,000
Treasury stock	20	(7,243,981)	-
Statutory reserve	21	5,923,890	3,615,717
Retained earnings		39,246,185	18,220,161
Share based payment	20	495,250	-
Equity attributable to equity holders of the parent		68,421,344	51,835,878
Non-controlling interest		859,978	(15,439)
TOTAL EQUITY		69,281,322	51,820,439
NON-CURRENT LIABILITIES			
Employees' defined benefits liabilities	22	5,081,100	3,662,919
Long-term loans	23	3,605,445	-
Lease liabilities	24	9,336,036	10,866,708
Accrued expenses and other liabilities- non-current	25	923,838	1,186,501
TOTAL NON-CURRENT LIABILITIES		18,946,419	15,716,128
CURRENT LIABILITIES			
Current portion of long-term loan	23	4,639,555	2,012,606
Current portion of lease liabilities	24	2,251,800	2,251,800
Contract liabilities	15	24,691,027	9,910,860
Zakat and income tax provision	26	2,486,702	1,581,198
Accrued expenses and other liabilities- current	25	24,772,991	13,110,829
Due to related parties	14	8,537,580	-
Trade payable		3,251,888	11,192,609
TOTAL CURRENT LIABILITIES		70,631,543	40,059,902
TOTAL LIABILITIES		89,577,962	55,776,030
TOTAL EQUITY AND LIABILITIES		158,859,284	107,596,469

Chief Financial Officer


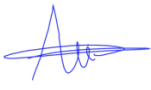

Chief Executive Officer

Chairman, Board of Directors

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

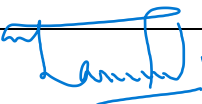
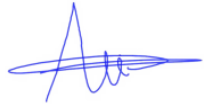
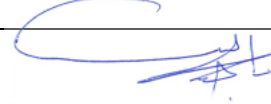
	Notes	2023 SR	2022 SR
Revenue	15	190,369,167	152,560,468
Cost of revenue	27	(151,895,285)	(121,749,747)
GROSS PROFIT		38,473,882	30,810,721
Selling and distribution expenses	28	(801,183)	(2,139,554)
General and administrative expenses	29	(20,347,331)	(14,154,547)
OPERATING PROFIT		17,325,368	14,516,620
Share in result of investment in an associate	9	1,779,434	865,258
Finance cost	30	(1,164,714)	(689,956)
Other income	31	7,662,890	5,795,424
PROFIT BEFORE ZAKAT		25,602,978	20,487,346
Zakat and income tax	26	(1,635,609)	(1,392,801)
PROFIT FOR THE YEAR		23,967,369	19,094,545
Attributable to:			
Equity holders of the Parent Company		23,081,725	19,104,434
Non-controlling interest		885,644	(9,889)
		23,967,369	19,094,545
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</i>			
Gain on financial assets at fair value through other comprehensive income	11	135,082	5,024
Remeasurement gain on employees' defined benefit liabilities	22	282,460	172,102
OTHER COMPREHENSIVE INCOME FOR THE YEAR		417,542	177,126
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		24,384,911	19,271,671
Attributable to:			
Equity holders of the Parent Company		23,509,494	19,281,560
Non-controlling interest		875,417	(9,889)
		24,384,911	19,271,671
EARNINGS PER SHARE			
Basic and diluted, income for the year per share attributable to equity holders of the parent	32	0.39	0.32
			
Chief Financial Officer			
			
Chief Executive Officer			
			
Chairman, Board of Directors			

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

	<i>Total equity attributable to the equity holders of the parent company</i>						<i>Non-controlling interest</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Treasury stock</i>	<i>Share based payment reserve</i>	<i>Total</i>	<i>SR</i>	<i>SR</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>		
As at 1 July 2021	30,000,000	1,703,609	850,709	-	-	32,554,318	-	32,554,318
Profit (loss) for the year	-	-	19,104,434	-	-	19,104,434	(9,889)	19,094,545
Other comprehensive income	-	-	177,126	-	-	177,126	-	177,126
Total comprehensive income	-	-	19,281,560	-	-	19,281,560	(9,889)	19,271,671
Transfer to statutory reserve	-	1,912,108	(1,912,108)	-	-	-	-	-
Non-controlling interest arising on acquisition of subsidiary	-	-	-	-	-	-	(5,550)	(5,550)
As at 30 June 2022	30,000,000	3,615,717	18,220,161	-	-	51,835,878	(15,439)	51,820,439
As at 1 July 2022	30,000,000	3,615,717	18,220,161	-	-	51,835,878	(15,439)	51,820,439
Profit for the year	-	-	23,081,725	-	-	23,081,725	885,644	23,967,369
Other comprehensive income	-	-	427,769	-	-	427,769	(10,227)	417,542
Total comprehensive income	-	-	23,509,494	-	-	23,509,494	875,417	24,384,911
Transfer to statutory reserve	-	2,308,173	(2,308,173)	-	-	-	-	-
Share based payments (note 20)	-	-	-	-	4,209,222	4,209,222	-	4,209,222
Treasury shares (note 20)	-	-	(175,297)	(7,243,981)	(3,713,972)	(11,133,250)	-	(11,133,250)
As at 30 June 2023	30,000,000	5,923,890	39,246,185	(7,243,981)	495,250	68,421,344	859,978	69,281,322

Chief Financial Officer	Chief Executive Officer	Chairman, Board of Directors
		

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements

**SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2023**

	Notes	2023 SR	2022 SR
OPERATING ACTIVITIES			
Profit for the year before zakat		25,602,978	20,487,346
<i>Adjustments to reconcile profit before zakat to net cash flows:</i>			
Depreciation of property and equipment	6	993,818	357,967
Right-of-use asset depreciation	7	1,222,620	438,047
Amortisation of intangible assets	8	-	296,986
Employees' defined benefits liabilities		2,658,534	2,134,709
Expected credit loss allowance for trade receivables		468,289	636,995
Expected credit loss allowance for contract assets		308,746	93,423
Gain on disposal of property and equipment		-	(348,451)
Gain on disposal of right-of-use asset		-	(146,367)
Gain on disposal of investment in an associate	9	(5,295,473)	(4,778,000)
Gain on disposal of financial assets at fair value through profit or loss	31	(788,945)	(441,171)
Share in profit from investment in an associate	9	(1,779,434)	(865,258)
Finance cost		1,164,714	689,956
		24,555,847	18,556,182
<i>Changes in operating assets and liabilities</i>			
Trade receivables		(13,184,944)	21,966,962
Contract assets		(7,404,638)	(9,595,835)
Prepayments and other current assets		1,607,870	(8,553,242)
Due from / to related parties, net		8,681,363	8,688,905
Trade payables		(7,940,721)	9,976,809
Contract liabilities		14,780,167	(7,577,363)
Accrued expenses and other current liabilities		11,691,034	1,751,187
		32,785,978	35,213,605
Employees' defined benefits liabilities paid	22	(957,891)	(1,838,234)
Zakat paid	26	(730,105)	(752,608)
Finance cost paid		(479,349)	(430,311)
Net cash flow from operating activities		30,618,633	32,192,452
INVESTING ACTIVITIES			
Purchase of property and equipment	6	(1,093,764)	(7,068,151)
Proceeds from the disposals of property and equipment		141,087	947,408
Additions to intangibles assets	8	(335,134)	(471,854)
Addition to investment in an associate		-	(38,000)
Proceeds from the disposal of investment in an associate		5,548,001	4,892,000
Purchase of financial assets at amortised cost		(24,995,169)	-
Purchase of financial assets at fair value through profit or loss	13	(28,019,473)	(20,486,284)
Proceeds from disposal of financial assets at fair value through profit or loss		20,788,945	13,927,455
Proceeds from financial assets at fair value through other comprehensive income		247,725	-
Net cash used in investing activities		(27,717,782)	(8,297,426)
FINANCING ACTIVITIES			
Non-controlling interest on acquisition		-	(5,550)
Treasury stock		(6,924,028)	-
Repayment of long-term loan		6,232,394	(9,657,023)
Payment of lease liabilities		(1,835,574)	(795,641)
Security deposits received		-	115,355
Net cash used in financing activities		(2,527,208)	(10,342,859)
NET CHANGE IN BANK BALANCE		373,643	13,552,167
BANK BALANCE AT THE BEGINNING OF THE YEAR		27,221,636	13,669,469
BANK BALANCE AT THE END OF THE YEAR		27,595,279	27,221,636

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOW (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023	2022
Non-cash transaction:			
Actuarial gain or loss		(282,460)	(172,102)
Lease liabilities		-	13,732,860
Right of use asset			9,780,958
			
Chief Financial Officer	Chief Executive Officer	Chairman, Board of Directors	

**SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2023

1. ACTIVITIES

Saudi AZM for Communication and Information Technology Company (the “Company”) is a Saudi joint stock Company registered in the Kingdom of Saudi Arabia on 11 Rabi Awal 1439H (corresponding to 29 November 2017) under Commercial Registration No. 1010918075. The Company became listed on the parallel market “Nomu” on 1 March 2022.

On 22 Shawwal 1442H (corresponding to 3 June 2021) the shareholders decided to change the legal structure of the Company from a limited liability company to a Saudi closed joint stock company, as well as increasing its share capital to SR 30 million by transferring SR 29.5 million from retained earnings to the share capital.

The Company is principally engaged in the sale of wire and wireless equipment and devices, repair and maintenance of personal and portable computers (of all types and sizes) and providing senior management consulting services.

The registered office of the Company head office is as follows:

7999, King Khalid Road, 2280 West Umm Al Hammam District
Riyadh 12329
Kingdom of Saudi Arabia

2. BASIS OF PREPARATION AND PRESENTATION

2.1 Statement of compliance

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

The Group has prepared these consolidated financial statements on the basis that it will continue to operate as a going concern.

2.2 Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals (“SR”), which is the Group’s functional currency and all values are rounded to the nearest one Saudi Riyal, except where otherwise indicated.

2.3 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the following material items in the consolidated statement of financial position that are measured at fair value:

- Financial assets at fair value through profit or loss (“FVPL”).
- Financial assets at fair value through other comprehensive income (“FVOCI”).
- Employees’ defined benefits liabilities are recognised at the present value of future obligations using the projected unit credit method

The preparation of the consolidated financial statements in accordance with IFRS as endorsed in 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.

2.4 New standards and amendments to standards

New standards and amendments adopted by the Group

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 July 2023, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time during current, but do not have an impact on the consolidated financial statements of the Group.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

2. BASIS OF PREPARATION AND PRESENTATION (continued)

2.4 New standards and amendments to standards (continued)

New standards and amendments adopted by the Group (continued)

Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable cost of meeting the obligations under the contract (i.e., the costs that the Group cannot avoid because it has the contract) exceeds the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labor and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The Group applied the amendments to the contracts for which it had not fulfilled all of its obligations at the beginning of the reporting period. These amendments had no impact on the financial statements of the Group.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Company applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the financial statements of the Group as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

Property, Plant and Equipment: Proceed before Intended Use – Amendments to IAS 16 Leases

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Company applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the financial statements of the Company as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the financial statements of the Group as it is not a first-time adopter.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

2. BASIS OF PREPARATION AND PRESENTATION (continued)

2.4 New standards and amendments to standards (continued)

New standards and amendments adopted by the Group (continued)

IFRS 9 Financial Instruments – Fees in ‘10 per cent’ test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Company applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Group as there were no modifications of the Group's financial instruments during the period.

IAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the financial statements of the Group as it did not have assets in scope of IAS 41 as at the reporting date.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation, and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. 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 an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the 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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

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

Definition of Accounting Estimates – Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, and 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.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

2. BASIS OF PREPARATION AND PRESENTATION (continued)

2.4 New standards and amendments to standards (continued)

New standards and amendments adopted by the Group (continued)

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities.

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

2.5 Basis of consolidation

The Company's subsidiaries consolidated in these consolidated financial statements is as follows:

<i>Subsidiaries Company</i>	<i>Country of incorporation</i>	<i>Effective ownership</i>	
		30 June 2023	<i>30 June 2022</i>
AZM Tajrubah for information technology Company	Saudi Arabia	75%	75%
Azm Software Development Company	Egypt	100%	-

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group") as at 30 June 2023.

AZM Tajrubah for information technology Company

On 1 December 2021, the Group acquired 75% of the voting shares of AZM Tajrubah for information technology Company. AZM Tajrubah for information technology Company is a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration numbered 1010600261, dated 22 Safar 1441H (corresponding to 21 October 2019). This Company was acquired from a related party of one of the shareholder (Mr. Ali M Al Ballaa) at a purchase consideration of SR nil.

The Company is engaged in general information technology services with major focus on user experience (UX) and user interface (UI) development related services.

AZM Software Development Company

On 14 June 2023, the Group established Azm Software Development Company which is 100% owned. AZM Development is a Limited Liability Company registered in Egypt under Commercial Registration numbered 209298, dated 20 June 2023.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

2. BASIS OF PREPARATION AND PRESENTATION (continued)

2.5 Basis of consolidation (continued)

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 year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Income and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Financial statements of subsidiaries are prepared using accounting policies which are consistent with those of the Group. 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 transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in consolidated statement of income. Any investment retained is recognised at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Group in the preparation of consolidated financial statements are set out below:

Business combination 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 the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects to measure the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and 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, if any, to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

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 of the operation. 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.

Investments in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining whether significant influence is similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates is accounted for using the equity method. Under the equity method, the investment in associates is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associates. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associates is eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of associates is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss and non-controlling interests in the subsidiaries of the associate, if any.

The financial statements of the associate is prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investments in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the loss as 'Share of profit of an associates' in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retaining investment and proceeds from disposal is recognised in consolidated statement of income.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each respective entity operates (the "functional currency"). The consolidated financial statements are presented in Saudi Riyals ("SR"), which is the Group's functional and presentation currency.

(ii) Transactions and balances

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

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyper inflationary economy) that have a functional currency different from the presentation currency of the consolidated financial statements are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- Income and expenses for each statement of income and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- All resulting exchange differences are recognized in other comprehensive income.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Cost includes all amounts necessary to bring the asset to the present condition and location to be ready for its intended use by management. Such costs include the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects (qualifying assets), if the recognition criteria are met, and costs incurred during the commissioning period, net of proceeds from sale of trial production.

When parts of property and equipment are significant in cost in comparison to the total cost of the item, and where such parts/ components have a useful life different from the other parts and required to be replaced at different intervals, the Group shall recognise such parts as individual components of the asset with specific useful lives and depreciate them accordingly.

All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated from the date the item of property and equipment is available for their intended use or in respect of self-constructed assets from the date such assets are completed and ready for the intended use. Land and assets under construction, which are not ready for their intended use, are not depreciated.

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

Computers and equipment	4 years
Fixtures and furniture	7 years
Vehicles	5 years
Leasehold improvements	10 years or lease terms whatever is shorter

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each reporting date.

An item of property and equipment and any significant component initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of retired, sold or otherwise derecognised property and equipment are determined by comparing the proceeds with the carrying amount of the asset, and are recognised within "other income/(loss)" in statement of comprehensive income.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Intangible assets

The Group's intangible assets consist of online platforms established by the Group and Software and IT systems and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets acquired separately are measured at cost upon initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed to be 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 each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing 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 statement of comprehensive income in the expense category consistent with the function of the intangible asset.

The estimated useful lives for current and comparative periods are 8 years. Intangible assets which are not ready for their intended use, are not amortised.

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

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Group assess whether a contract contains a lease, at inception of the contract. For all such lease arrangements the Group recognize right of use assets and lease liabilities except for the short-term leases and leases of low value assets as follows:

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 re-measurement 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 and the lease term. Right-of-use assets are subject to impairment. Right-of-use assets are depreciated over the useful life or lease period whichever is lower.

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 re-measured 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 commercial buildings, accommodations and offices (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 commercial buildings, accommodations and offices 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.

As a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Operating lease income is recognized in the consolidated statement of profit or loss on a straight-line basis over the lease term. Any benefits granted as an incentive to enter into an operating lease, are distributed in a straight-line basis over the lease term. Total benefits from incentives are recognized as a reduction in rental income on a straight-line basis, unless there is another basis that better represents the period of time in which the economic benefits of the leased asset are exhausted.

The amounts due from the finance leases are recorded as lease receivables at an amount equal to the net investment of the Group in the lease. The lease payments to be received are distributed into two components:

- a reimbursement of the original amount
- a financing income to compensate the Group for its investment and services.

The additional costs directly attributable to negotiating the lease contract are included in the amounts due, which in return, will reduce the finance income portion from the contract.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

i) Financial assets

Classification of financial assets depends on the Group's business model for managing its financial assets and the contractual terms of the cash flows. The Group classifies its financial assets as:

- Financial assets measured at amortized cost; or
- Financial assets measured at fair value

Gains or losses of assets measured at fair value will be recognised either through the statement of comprehensive income or through statement of OCI.

Initial measurement

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.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, 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.

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.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

• Amortized cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in statement of comprehensive income when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, and investment in Sukuk.

• FVOCI

Financial assets held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognised in the statement of comprehensive income.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

i) Financial assets (continued)

Subsequent measurement (continued)

• FVOCI (continued)

When the financial asset is de-recognised, the cumulative gain or loss previously recognised in OCI, is reclassified from equity to the statement of comprehensive income and recognised in other income/expense. Interest income from these financial assets is included in finance income using the EIR method. Foreign exchange gains and losses are presented in other income/expense.

• FVPL

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive income. This category includes derivative instruments.

Equity instruments

The Group measures all investments in equity instruments at fair value and presents changes in fair value of investments in equity instruments in OCI. Dividends from such investments continue to be recognised in the statement of comprehensive income as other income when the Group's right to receive payments is established. There shall be no subsequent reclassification of changes in fair value through profit or loss income.

A financial asset or a part of a financial asset is de-recognised 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.

Impairment

At each reporting date, the Group applies a three-stage approach to measuring expected credit losses ("ECL") on financial assets. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

a) Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

b) Stage 2: Lifetime ECL - not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

i) Financial assets (continued)

Impairment (continued)

c) Stage 3: Lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortized cost (net of provision) rather than the gross carrying amount.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

For equity instruments measured at FVOCI, impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value and for debt instruments measured at FVOCI, impairment gains or losses are recognised in the consolidated statement of comprehensive income.

For trade receivables only, the Group recognizes expected credit losses for trade receivables based on the simplified approach. The simplified approach to the recognition of expected losses does not require the Group to track the changes in credit risk; rather, the Group recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Objective evidence that financial assets are impaired may include indications that a debtor or a Company of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

i) Financial assets (continued)

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Group under the contract, and the cash flows that the Group expects to receive. The Group assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Group measures expected credit loss by considering the risk of default over the contract period and in Group's forward-looking information into its measurement.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified under either of the below two classes:

- Financial liabilities at FVPL; and
- Other financial liabilities measured at amortized cost using the EIR method.

The category of financial liability at FVPL has two sub-categories:

- Designated: A financial liability that is designated by the entity as a liability at FVPL upon initial recognition; and
- Held for trading: A financial liability classified as held for trading, such as an obligation for securities borrowed in a short sale, which have to be returned in the future. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

All financial liabilities are recognised initially when the Group becomes party to contractual provisions and obligations under the financial instrument. The liabilities are recorded at fair value, and in the case of loans and borrowings and payables, the proceeds received net of directly attributable transaction costs.

Subsequent measurement

Financial liabilities at FVPL continue to be recorded at fair value with changes being recorded in the statement of comprehensive income.

For other financial liabilities, including loans and borrowings, after initial recognition, these are subsequently measured at amortized cost using the EIR method. Gains and losses are recognised in statement of comprehensive income when the liabilities are de-recognised as well as through the EIR amortization process.

Amortized 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 method. The EIR amortization is included as finance costs in the statement of comprehensive income.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. They are recognised initially at their fair value and subsequently measured at amortized cost using the EIR method.

Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value adjusted for transaction costs that are directly attributable to the issuance of the guarantee. The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

ii) Financial liabilities (continued)

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

De-recognition

A financial liability is de-recognised when the obligation under the liability is settled or discharged. 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 de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

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 realize the assets and settle the liabilities simultaneously.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a 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. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

End of service benefits

The Group primarily has end of service benefits which qualifies as defined benefit plans.

The pension liability recognised in the consolidated statement of financial position is the present value of the projected Defined Benefit Obligation ("DBO") at the reporting date.

DBO is re-measured on a periodic basis by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high-quality bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. For instances where there is no deep market in such bonds, the market rates on government bonds are used. As Kingdom of Saudi Arabia does not have a deep market in high quality corporate bonds, the discount rate was determined based on available information of Kingdom of Saudi Arabia sovereign bond yields.

The net interest cost is calculated by applying the discount rate to the net balance of the DBO. This cost is included in employees' related costs in the consolidated statement of comprehensive income.

Re-measurement gains and losses arising from changes in actuarial assumptions are recognised in the period in which they occur in OCI. Changes in the present value of the DBO resulting from plan amendments or curtailments are recognised immediately in the consolidated statement of comprehensive income as past service costs.

Current and past service costs related to end of service indemnities and unwinding of the liability at discount rates used are recognised immediately in the consolidated statement of comprehensive income. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in OCI.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

End of service benefits (continued)

The actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labor Laws and Workmen Law as well as the Group's policy.

Retirement benefits

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

Short-term employee benefits

A liability is recognised 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. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank balances that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, Group assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of comprehensive income.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit), except for goodwill, is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the comprehensive income.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

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.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized 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 recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

Statutory reserve

In accordance with the Companies' Law and the Company's bylaws, 10% of net income for the year is transferred to statutory reserve. The Group may discontinue such transfer when the reserve equals 30% of the share capital. This reserve is not available for distribution.

Treasury shares

Own equity instruments that are repurchased (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount of the shares and the consideration, if reissued, is recognised in the other reserves within equity.

Shared-based payment transactions

The Group's executive employees receive remuneration in the form of share-based payments under the employee long term incentives program, whereby employees render services as consideration for the Group's shares (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value of the equity instrument at the grant date. The grant date is the date on which the Group and the employee agree on the share-based agreement, so that a common understanding of the terms and conditions of the agreement exists between the parties.

Share-based payment expense is included as part of employee benefit expenses over the period in which the service and the performance conditions are fulfilled (the vesting period), with the corresponding amount recorded under other reserves within equity in accordance with the requirements of the International Financial Reporting Standard (2) Share-based payment. The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of shares that will ultimately vest. The expense or credit in the consolidated statement of comprehensive for a period represents the movement in cumulative expense recognized from the beginning to the end of that period.

**SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers

Revenue from contracts with customers is recognized using the five-step model:

- i) identify the contract with a customer;
- ii) identify the performance obligations (distinct elements that are part of a single contract but are separated for accounting purposes) in the contract;
- iii) determine the transaction price;
- iv) allocate the transaction price to the performance obligations in the contract;
- v) recognize revenue when (or as) the entity satisfies a performance obligation, which is when the customer obtains control of the good or service which can take place over time or at a point in time.

Revenue is measured based on the consideration specified in a contract with the customer. The Group recognizes revenue when it transfers control over a good or service to a customer. The specific recognition criteria described below must also be met before the revenue is recognized.

Contract revenue

Contract revenues are recognised on percentage of completion method for each contract, which is determined based on the proportion of actual costs to the estimated cost required to complete the contract. The cost of contract includes the cost and general administrative expenses that are directly attributable to the contract from the date of securing the contract to its final completion. Changes in cost estimates and losses on uncompleted contracts, if any, are recognized in the period they are determined. When it is probable that the total contract costs will exceed the total contract revenues, the expected loss is recognized immediately.

Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Platform development	<p>Custom Software Development is building a custom IT platform or software solution tailored to a specific customer's needs. Performance obligation is satisfied over time as work progresses, with milestones or deliverables. Alternatively, if the project has a single identifiable milestone (e.g., successful deployment), performance obligation is satisfied at point in time.</p> <p>Software as a Service (SaaS) is providing access to a cloud-based IT platform with ongoing updates, maintenance, and support. Revenue is recognized over time as the customer uses the service and usually it is recognized on a monthly or annual basis, based on the subscription period.</p> <p>Invoices for platform development are issued on the basis of pre-agreed billing schedule or achievement of milestones. Payment terms vary with clients and agreed with clients based on the commercial factors such as business volume, client history with the Group and creditworthiness.</p> <p>Un-billed amounts are presented as contract assets.</p>	<p>For performance obligation satisfied over the period of time, revenue is recognized over the period of time based on the cost-to-cost method determined based on the proportion of actual costs to the estimated cost required to complete the contract. The cost of contract includes the cost and general administrative expenses that are directly attributable to the contract from the date of securing the contract to its final completion. Changes in cost estimates and losses on uncompleted contracts if any, are recognized in the period they are determined.</p> <p>For performance obligation satisfied at a point in time, the revenue is recognized at the point service is provided or goods are delivered.</p> <p>When it is probable that the total contract costs will exceed the total contract revenues, the expected loss is recognized immediately.</p> <p>The related costs are recognized comprehensive income when they are incurred.</p> <p>Advances received are included in contract liabilities as advances from customers.</p>

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract revenue (continued)

Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Platform maintenance	Providing ongoing support, updates, and maintenance for IT platforms and performance obligation for these services are typically satisfied over the period of time as the services are provided. Invoices are issued according to contractual terms and are usually payable within 30 days.	Revenue and associated costs are recognized over time. Progress is determined based on the cost-to-cost method.
Manpower supply / Consulting and advisory services	Providing consulting services related to IT platform development strategies. Performance obligation are satisfied as the services are performed, often based on hours worked or specific milestones achieved and invoices are issued according to contractual terms and are usually payable within 90 days.	Revenue and associated costs are recognized over time. Progress is determined based on the cost-to-cost method.

• *Contract assets and liabilities*

When either party to a contract has performed, an entity shall present the contract in the consolidated statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

• *Principal versus agent consideration*

The Group has evaluated its arrangements to determine whether it is a principal, and report revenues on a gross basis, or an agent, and report revenues on a net basis. In this assessment, the Group has considered if it has obtained control of the specified goods or services before they are transferred to the customer, as well as other indicators such as the party primarily responsible for fulfillment, inventory risk, and discretion in establishing price.

Where the Group performs agency related activities under a contract, the Group only recognizes net commission income, as the Group arranges for another party to transfer goods or services under such arrangement and accordingly is acting as an agent.

Other income

All other incomes are recognized on an accrual basis when the Group's right to earn the income is established.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the Group's products and services.

General and administration expenses include indirect costs not specifically part of cost of sales or selling and distribution expenses as required under IFRSs as endorsed in KSA. Allocations between general and administration expenses, cost of sales and selling & distribution expenses, when required, are made on a consistent basis.

Borrowing costs

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

All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of finance and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized as from the commencement of the development work until the date of practical completion, when substantially all of the development work is completed.

The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. Borrowing costs is also capitalized on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

Zakat and Value Added Tax (VAT)

Zakat is provided for the Group in the Kingdom of Saudi Arabia in accordance with the Regulations of Zakat, Tax and Customs Authority (the "ZATCA") in the Kingdom of Saudi Arabia, and the provision is charged to the consolidated statement of comprehensive income.

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

- When the VAT incurred on a purchase of assets or services is not recoverable from the Zakat, Tax and Customs 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 Zakat, Tax and Customs Authority is included as part of receivables or payables in the consolidated statement of financial position.

Dividends

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's consolidated financial statements in the year in which the dividends are approved by the Group's shareholders.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed by the decision makers to make decision about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of the Group's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses and assets and liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

The following critical judgements and estimates have the most significant effect on the amounts recognised in the consolidated financial statements:

Useful lives and residual values of property and equipment and intangible assets

An estimate of the useful lives and residual values of property and equipment and intangible assets is made for the purposes of calculating depreciation and amortization, respectively. These estimates are made based on expected usage for useful lives. Residual value is determined based on experience and observable data where available.

Contract cost estimation

The Group recognizes contract revenue by reference to the stage of completion of the activity at the reporting date, when the outcome of a contract can be estimated reliably. The stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Assumptions are required to estimate the total estimated contract costs and the recoverable variation works that will affect the stage of completion. The estimates are made based on past experience and knowledge of the project engineers and other technical team. The accuracy of these estimates is likely to have an impact on the amount of revenue and related profits recognised.

At the end of each reporting period, the Group is required to estimate costs to complete the contracts based on work to be performed beyond the reporting period. This involves objective evaluation of project progress against the schedule, evaluation of work to be performed and the associated costs to fully deliver the contract to the customer. This estimate will impact contract revenue and costs, contract assets, contract liabilities and accrued project costs. The measurement of contract revenue is affected by a variety of uncertainties (including cost estimation) that depend on the outcome of future events. The estimates often need to be revised as events occur and uncertainties are resolved. Therefore, the amount of contract revenue recognised may increase or decrease from period to period.

Defined benefit plan

Employee benefits obligation represent obligations that will be settled in the future and require assumptions to project obligations. IFRS requires management to make further assumptions regarding variables such as discount rates, rate of compensation increase, mortality rates, employment turnover and future healthcare costs. The Group's management use an independent actuary for performing this calculation. Changes in key assumptions can have a significant impact on the projected benefit obligation and/or periodic employees' benefits costs incurred.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the input, assumptions and estimation techniques used in measuring ECL is further detailed in note 3.10 (ii) Impairment - Financial assets.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or CGU 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 for disposing of the asset. The value in use calculation is based on a discounted cash flow (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 asset's performance of the CGU being tested. The recoverable amount is most 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.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

Provisions

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

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

Going concern

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

Determining the lease term of contracts with renewal and terminations 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.

The Group has several lease contracts that include extension and termination clauses. 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.

Incremental borrowing rate for lease agreements

The Group cannot readily determine the interest rate implicit in the lease agreement, 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. The Group estimates the IBR using observable inputs, such as market interest rates when available and is required to make certain entity-specific estimates.

Zakat

The Group and its subsidiaries are subject to zakat in accordance with the Regulations of Zakat, Tax and Customs Authority (the "ZATCA") in the Kingdom of Saudi Arabia, and the provision is charged to the statement of comprehensive income. Additional zakat liabilities, if any, resulting from the final assessments raised by (the "ZATCA") for previous years are accounted for in the year in which this final assessment is issued.

5. NEW STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

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

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

5. NEW STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE (continued)

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted but will need to be disclosed.

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

6. PROPERTY AND EQUIPMENT

	Computers & equipment SR	Furniture & fixtures SR	Leasehold improvement SR	Vehicle SR	Total SR
<i>Cost:</i>					
At 1 July 2022	835,331	715,512	5,975,769	-	7,526,612
Additions during the year	515,759	193,386	329,419	55,200	1,093,764
Disposal during the year	(35,396)	-	(110,434)	-	(145,830)
At 30 June 2023	1,315,694	908,898	6,194,754	55,200	8,474,546
<i>Depreciation:</i>					
At 1 July 2022	328,676	12,881	75,311	-	416,868
Depreciation charge for the year	263,853	118,822	608,421	2,722	993,818
Related to disposal during the year	(3,363)	-	(1,380)	-	(4,743)
At 30 June 2023	589,166	131,703	682,352	2,722	1,405,943
<i>Net book value:</i>					
At 30 June 2023	726,528	777,195	5,512,402	52,478	7,068,603

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

6. PROPERTY AND EQUIPMENT (continued)

	<i>Computers & equipment SR</i>	<i>Furniture & fixtures SR</i>	<i>Leasehold improvement SR</i>	<i>Total SR</i>
<i>Cost:</i>				
At 1 July 2021	457,981	363,954	583,934	1,405,869
Additions during the year	377,350	715,032	5,975,769	7,068,151
Disposals during the year	-	(363,474)	(583,934)	(947,408)
At 30 June 2022	835,331	715,512	5,975,769	7,526,612
<i>Depreciation:</i>				
At 1 July 2021	176,877	112,774	117,701	407,352
Depreciation charge for the year	151,799	58,180	147,988	357,967
Related to disposals during the year	-	(158,073)	(190,378)	(348,451)
At 30 June 2022	328,676	12,881	75,311	416,868
<i>Net book value:</i>				
At 30 June 2022	506,655	702,631	5,900,458	7,109,744

7. RIGHT-OF-USE-ASSET

During 2022, the Group has entered into various lease agreements for the head office building both as lessee and sub-lessor. The Group's lease payments are fixed over the lease terms and the payments for the leases are discounted using an incremental borrowing rate of 7.45% (30 June 2022: 7.45%).

	<i>30 June 2023 SR</i>	<i>30 June 2022 SR</i>
At the beginning of the year	9,577,188	234,277
Depreciation charge for the year	(1,222,620)	(438,047)
Additions during the year	-	13,732,860
Disposals during the year (*)	-	(3,951,902)
At the end of the year	8,354,568	9,577,188

(*) Disposals during prior year related to the sub lease of the head office building, as the Group has sub leased one floor to a different tenant (note 10).

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

8. INTANGIBLE ASSETS

The Group has established online platforms from which the Group expects to receive future economic benefits and is currently under progress and no amortization is charged.

	Software SR	Work in progress SR	Total SR
<i>Cost:</i>			
At 1 July 2022	935,672	471,854	1,407,526
Additions during the year	-	335,134	335,134
At 30 June 2023	935,672	806,988	1,742,660
<i>Accumulated amortisation:</i>			
At 1 July 2022	935,672	-	935,672
At 30 June 2023	935,672	-	935,672
<i>Net book value:</i>			
At 30 June 2023	-	806,988	806,988
	Software SR	Work in progress SR	Total SR
<i>Cost:</i>			
At 1 July 2021	935,672	-	935,672
Additions during the year	-	471,854	471,854
At 30 June 2022	935,672	471,854	1,407,526
<i>Accumulated amortisation:</i>			
At 1 July 2021	638,686	-	638,686
Charged during the year (note 27)	296,986	-	296,986
At 30 June 2022	935,672	-	935,672
<i>Net book value:</i>			
At 30 June 2022	-	471,854	471,854

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

9. INVESTMENT IN AN ASSOCIATE

Below is the details of investment in an in associate:

<i>Name</i>	<i>Country of incorporation</i>	<i>Percentage of ownership</i>	
		30 June 2023	30 June 2022
National Real Estate Platform (Aqarek) Company	Saudi Arabia	32.68%	35.45%
		30 June 2023	30 June 2022
At the beginning of the year		789,258	-
Share in profit from investment in an associate		1,779,434	865,258
Disposal during the year		(252,528)	(114,000)
Additions during the year		-	38,000
At the end of the year		2,316,164	789,258

During 2022, the Group established National Real Estate Platform (Aqarek) and initially hold 38% shares of Company and sold 2.55% holding during prior year, having a carrying value of SR 114,000, and this has resulted in a gain of SR 4,778,000 (note 31). During the year ended 30 June 2023, the Group sold another 2.77% holding, that having a carrying value of SR 252,528, and this has resulted in a gain of SR 5,295,473 (note 31) and the Group still hold significant influence over the investee Company.

National Real Estate Platform (Aqarek) Company registered in the Kingdom of Saudi Arabia is a limited liability company. The Company is engaged in real estate activities, consultancy, advisory services, computer programming, data processing and web related activities.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
30 June 2023

9. INVESTMENT IN AN ASSOCIATE (continued)

Summarized financial information in respect of the Group's associate is set out below. The summarized financial information below represents amounts shown in the associate's audited financial statements.

	30 June 2023 SR	30 June 2022 SR
<i>Statement of financial position</i>		
Current assets	44,903,377	32,234,187
Non-current assets	2,485,843	826,254
Current liabilities	(34,208,986)	(11,878,285)
Non-current liabilities	(5,620,732)	(17,836,960)
Equity	7,559,502	3,345,196
	30 June 2023 SR	30 June 2022 SR
<i>Statement of comprehensive income</i>		
Revenue	16,844,768	6,755,123
Total income for the year	4,214,306	3,245,196
Total comprehensive income for the year	4,214,306	3,245,196

10. INVESTMENT IN FINANCE LEASE

During 2022, the Group entered into an agreement with Real Estate Projects Fund Company, whereby the Group leased the three-floor building for a period of 8 years. The Group became a lessee and therefore had to record a right of use asset and lease liability under IFRS 16. However, during the same month, the Company sub-leased floor 2 and 3 to two different tenants. Floor 2 was sub-leased for the 2 years, while floor 3 was sub-leased for a period of 8 years. The sublease of floor 2 was categorized as an operating lease while floor 3 was categorized as a finance lease. As a result, the Group recognized 'net investment in lease' for the sub-lease. The movement is as follows:

	30 June 2023 SR	30 June 2022 SR
At the beginning of the year	5,201,280	-
Payment received during the year	(672,000)	(336,000)
Additions during the year	-	5,537,280
At the end of the year	4,529,280	5,201,280

Lease payments receivable are disclosed in the consolidated statement of financial position as follows:

	30 June 2023 SR	30 June 2022 SR
Current	672,000	672,000
Non-current	3,857,280	4,529,280
Total	4,529,280	5,201,280

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
30 June 2023

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Country	Ownership interest (%)		30 June	30 June
		30 June	30 June	2023	2022
		2023	2022	SR	SR
<i>Unquoted investments</i>					
SITECH Inc. (a)	Cayman Islands	3.28%	3.28%	1,250,207	1,127,100
US & Global Tech Opportunities Holding Company (b)	Bahrain	0.74%	0.74%	520,674	756,424
				<u>1,770,881</u>	<u>1,883,524</u>

The movement in the unquoted investment during the year was as follows:

	30 June	30 June
	2023	2022
	SR	SR
At the beginning of the year	1,883,524	1,878,500
Change in fair value	135,082	5,024
Disposal proceeds	(247,725)	-
At the end of the year	<u>1,770,881</u>	<u>1,883,524</u>

- (a) During 2021, the Group invested SR 1,127,100 to purchase 1,394 shares in Sitech Inc. which is a company established under the laws of the Cayman Islands (company number VC-343497), with its registered office at 19 Walkers Road, PO Box 2677, Grand Cayman, KY1-1111, Cayman Islands. The business of Sitech Inc. involves technology development and consulting services pursuant to which it will act as an incubator that will build software and products that are spun out into standalone businesses partly or wholly-owned by Sitech Inc. The Group's share in ownership is 3.28%.
- (b) During 2021, the Group invested SR 751,400 to purchase 2,000 shares (0.74%) of US & Global Tech Opportunities Holding Company through GFH Financial Group B.S.C., P. O. Box 10006, Manama, Bahrain. The US & Global Tech Opportunities Holding Company is a collective investment vehicle investing in a portfolio of High-Growth, Next-Gen Tech Companies. The overall size of the collective investment vehicle is c. US\$ 270 million.

12. FINANCIAL ASSETS AT AMORTISED COST

During the year on 20 June 2023 the Group invested in local Sukuks carrying profit at average rate of 4.91% and maturities up to 2028. The movement in the financial assets at amortised cost during the year was as follows:

	30 June
	2023
	SR
Investment in Sukuk- quoted	25,000,150
Less: Allowance for impairment	(4,981)
At the end of the year	<u>24,995,169</u>

The fair value of sukuk (at amortized cost) as at 30 June 2023 was SR 24,995,169 million (2022: SR nil).

Below is the analysis of the investment in amortised cost:

	30 June
	2023
	SR
Fixed rate investment in Sukuk- quoted	<u>24,995,169</u>

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The movement of investment in FVPL during the year was as follows:

	30 June 2023 SR	30 June 2022 SR
At the beginning of the year	17,000,000	10,000,000
Additions	28,019,473	20,486,284
Disposals	(20,000,000)	(13,486,284)
At the end of the year	25,019,473	17,000,000

Group financial assets at fair value through profit or loss amounting to SR 25,019,473 (30 June 2022: SR 17,000,000) represents investment in a Mutual Fund through a brokerage company of a local bank in Saudi Arabia. The intention of the Group is to take advantage of the upside movement in price, efficiently manage the short-term excess liquidity and record any gain or loss in the fair value to profit or loss account. During the year the unrealised fair value gain was recorded at SR 788,945 (30 June 2022: SR nil).

The Group sold financial assets at fair value through profit or loss and this has resulted in a gain of SR 230,528 (2022: SR 441,171).

14. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise of partners, key management personnel, directors and businesses which are controlled directly or indirectly or influenced by the partners, directors or key management personnel. In the normal course of business, the Group has various transactions with its related parties. Transactions are entered into with the related parties on terms and conditions approved by either the Group's management or its Board of Directors.

<i>Related party</i>	<i>Nature of relationship</i>		
Saudi AZM Holding Company	Shareholder		
Itmam Consultancy Company	Affiliate		
AZM Financial Technology Company	Affiliate		
Azm Digital Company for Communication and Information Technology	Affiliate		
Business Innovation Mine Company	Affiliate		
Future Communications Company	Affiliate		
National Real Estate Platform (Aqarek) Company	Associate		
<i>Related party</i>	<i>Nature of transaction</i>	2023 SR	2022 SR
AZM Financial Technology Company	Revenue	6,000,101	6,880,311
	Expenses	28,464,194	21,823,682
Itmam Consultancy Company	Revenue	15,894,693	-
	Expenses	264,563	-
Business Innovation Mine Company	Revenue	454,192	1,144,677
	Expenses	236,370	435,925
Future Communications Company	Revenue	66,367	-

Related parties balances at year end are as follows:

	30 June 2023 SR	30 June 2022 SR
<i>Due from related parties:</i>		
National Real Estate Platform (Aqarek) Company	1,102,000	1,102,000
AZM Holdings	35,210	-
AZM Financial Technology Company	-	178,993
	1,137,210	1,280,993

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

14. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	30 June 2023 SR	30 June 2022 SR
Due to related parties:		
AZM Financial Technology Company	8,483,674	-
AZM Digital Company	53,906	-
	<u>8,537,580</u>	<u>-</u>

Compensation to key management and Board of Directors' personnel

Key management personnel compensation comprised the following:

	2023 SR	2022 SR
Short-term employee benefits	2,436,944	2,363,528
End of service benefits	218,499	252,875
Board of Directors' remuneration (note 29)	421,000	-
	<u>3,076,443</u>	<u>2,616,403</u>

15. CONTRACT REVENUE, ASSETS & LIABILITIES

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

	30 June 2023 SR	30 June 2022 SR
Contract cost incurred (note 27)	151,895,285	121,749,747
Add: recognized profits	38,473,882	30,810,721
Total revenue	190,369,167	152,560,468
Billing issued during the year	(194,106,520)	(148,922,292)
Contract liabilities	24,691,027	9,910,860
Contract assets, gross	<u>20,953,674</u>	<u>13,549,036</u>
Contract assets		
Contract assets, gross	20,953,674	13,549,036
Less: expected credit loss	(415,071)	(106,325)
Contract assets, net	<u>20,538,603</u>	<u>13,442,711</u>

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

At the beginning of the year	(106,325)	(12,902)
Charged during the year	(308,746)	(93,423)
At the end of the year	<u>(415,071)</u>	<u>(106,325)</u>

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

15. CONTRACT REVENUE, ASSETS & LIABILITIES (continued)

Set out below is the disaggregation of the Company's revenue from contracts with customers:

	2023 SR	2022 SR
Major product / Service line		
Enterprise services	90,160,481	89,445,689
Proprietary technologies	40,642,972	9,333,691
Platforms for third parties	35,050,363	14,582,507
Advisory	24,515,351	39,198,581
	<u>190,369,167</u>	<u>152,560,468</u>
Type of customers		
Government customers	95,538,136	85,500,721
Private customers	49,569,212	32,504,693
Semi-government customers	45,261,819	34,555,054
	<u>190,369,167</u>	<u>152,560,468</u>
Timing of revenue recognition		
Goods or services transferred to customers:		
- over time	165,696,792	134,955,012
- point in time	24,672,375	17,605,456
	<u>190,369,167</u>	<u>152,560,468</u>
Kingdom of Saudi Arabia	<u>190,369,167</u>	<u>152,560,468</u>

16. TRADE RECEIVABLES

	30 June 2023 SR	30 June 2022 SR
Trade receivables	25,586,326	12,401,382
Less: Allowance for expected credit losses	(1,666,625)	(1,198,336)
	<u>23,919,701</u>	<u>11,203,046</u>

Trade receivables comprise of interest free net receivables due from customers with no credit rating. Unimpaired accounts receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and vast majority are, therefore, unsecured.

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

	30 June 2023 SR	30 June 2022 SR
At the beginning of the year	1,198,336	561,341
Provision charged for expected credit losses	468,289	636,995
At the end of the year	<u>1,666,625</u>	<u>1,198,336</u>

**SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

16. TRADE RECEIVABLES (continued)

The following table details the risk profile of accounts receivable based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss pattern for different customer segments, the allowance for expected credit losses based on past due status is not further distinguished between the Group's different customer types.

	<i>Current</i>	<i>1- 90</i>	<i>91-180</i>	<i>180-270</i>	<i>271-365</i>	<i>More than</i>	
30 June 2023	SR	days	days	days	days	365 days	Total
		SR	SR	SR	SR	SR	SR
ECL rate %	1.48%	4.84%	8.61%	25%	81.39%	100%	
Gross carrying amount	17,077,715	4,508,134	945,849	2,492,350	381,976	180,302	25,586,326
Expected credit loss	252,484	218,396	81,454	623,087	310,902	180,302	1,666,625
30 June 2022	Current	1- 90	91-180	180-270	271-365	More than	
	SR	days	days	days	days	365 days	Total
		SR	SR	SR	SR	SR	SR
ECL rate %	0.29%	1.30%	5.31%	25%	-	100%	
Gross carrying amount	2,234,503	5,940,887	1,420,117	2,355,456	-	450,419	12,401,382
Expected credit loss	6,582	77,090	75,412	588,833		450,419	1,198,336

17. PREPAYMENTS AND OTHER CURRENT ASSETS

	30 June	30 June
	2023	2022
	SR	SR
Letters of bank guarantees	8,527,276	8,400,912
Prepaid expenses	914,470	2,015,491
Advances against investment	900,000	900,000
Employees' advances	267,139	381,902
Advances to suppliers, net	198,480	716,930
	10,807,365	12,415,235

18. BANK BALANCES

	30 June	30 June
	2023	2022
	SR	SR
Bank balances	27,595,279	27,221,636

19. SHARE CAPITAL

The share capital of the Group amounted to SR 30 million (30 June 2022: SR 30 million) divided into authorised and fully paid 60 million shares, (30 June 2022: 3 million shares) of SR 0.5 each share (30 June 2022: SR 10 each shares).

During the year, Extraordinary General Assembly Meeting of the Company was held on 29 Duh Al-Qi'dah 1444H (corresponding to 18 June 2023), shareholders approved a change in the nominal value of shares. The nominal value was amended from 10 SR to 0.5 SR, resulting in a share split and an increase in the number of shares from 3 million shares to 60 million shares.

**SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

20. TREASURY STOCK

During the year ended 30 June 2023, the Group completed the purchase of 57,502 shares based on the approval from General Assembly Dated 3 Muharram 1444H (corresponding to 1 August 2022) of its own shares with an amount of SR 11.133 million to be allocated to the Employees' Long-term Incentives Program and high performing employee.

The Program intends to attract, motivate and retain employees responsible for the achievement of the Group's goals and strategy. The Program provides a share-based payment plan for eligible employees participating in the Program by granting them shares in the Company upon completing the duration of service. The group accounts for the share based payment plan program as an equity-settled plan.

	<i>30 June 2023 SR</i>
Treasury shares purchased during the year	11,133,250
Treasury shares distributed during the year	(3,713,972)
Adjustment in retained earnings	(175,297)
	<u>7,243,981</u>

The expense recognised for employee services received during the year is shown in the following table:

	<i>30 June 2023 SR</i>
Expense arising from equity-settled share-based payment transactions	<u>2,149,582</u>

21. STATUTORY RESERVE

In accordance with the Companies' Law, the Group sets aside 10% of its net income each year as statutory reserve until such reserve equals to 30% of the share capital. This reserve is currently not available for distribution to the shareholders of the Group.

22. EMPLOYEES' DEFINED BENEFITS LIABILITIES

The movement in provision for employee defined benefits liabilities for the year ended is as follows:

	<i>30 June 2023 SR</i>	<i>30 June 2022 SR</i>
Balance at the beginning of the year	3,662,919	3,538,546
Current service cost	2,662,614	2,083,048
Interest expense (note 30)	134,817	51,661
Amount recognized in statement of income	2,797,431	2,134,709
Re-measurements		
Actuarial gain	(282,460)	(172,102)
Amount recognized in other comprehensive income	(282,460)	(172,102)
Benefits paid during the year	(957,891)	(1,838,234)
Transferred to related party	(138,899)	-
Balance at the end of the year	<u>5,081,100</u>	<u>3,662,919</u>

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

22. EMPLOYEES' DEFINED BENEFITS LIABILITIES (continued)

Significant actuarial assumptions

The Group carried out an employee benefits actuarial valuation, using the projected unit credit method, of its liability as at 30 June 2023 and 2022 arising from the end of service benefits to qualifying in-service employees.

The following were the principal actuarial assumptions:

	30 June 2023	30 June 2022
<i>Key actuarial assumptions</i>		
Discount rate used	4.80%	3.95%
Salary growth rate	5.50%	5.50%
Mortality rate	0.06%	0.06%

Sensitivity analysis

Reasonably possible changes as to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation. The following is a sensitivity analysis for the salary inflation and discount rate assumptions that were performed at the previous and current valuation date:

	30 June 2023		30 June 2022	
	Base	1% increase SR	Base	1% increase SR
Discount rate	4.80%	4,575,462	3.95%	4,083,436
Salary growth rate	5.50%	(5,381,293)	5.50%	(3,578,086)

Risks associated with defined benefit plans

(a) Longevity risks:

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

(b) Salary increase risk:

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual salary increases are higher than expectation and impacts the liability accordingly.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

23. LONG AND SHORT-TERM LOANS

The Group has entered into agreement to obtain long term and short-term loans from a financing company and Social Development Bank in the Kingdom of Saudi Arabia outstanding amount to SR 8.5 million (30 June 2022: SR 2 million) with variable commission rates. These loans are secured by personal guarantees of the shareholders and promissory notes.

Total facilities utilized for the year are as follows:

	30 June 2023 SR	30 June 2022 SR
At the beginning of the year	2,012,606	11,709,037
Payments during the year	(2,012,606)	(9,696,431)
Addition during the year	8,245,000	-
At the end of the year	8,245,000	2,012,606
Current liabilities	(4,639,555)	(2,012,606)
<i>Non-current liabilities</i>	3,605,445	-

24. LEASE LIABILITIES

	30 June 2023 SR	30 June 2022 SR
At the beginning of the year	13,118,508	181,314
Additions during the year	-	13,732,860
Payments during the year	(2,251,800)	(1,307,214)
Interest on lease liabilities	721,128	511,548
At the end of the year	11,587,836	13,118,508
Current portion	(2,251,800)	(2,251,800)
Non-current portion	9,336,036	10,866,708
Following is the aggregate maturities of lease liabilities:		
Within one year	2,251,800	2,251,800
Two to five years	9,277,416	9,007,200
More than five years	4,773,816	6,169,932
Total undiscounted lease commitments	16,303,032	17,428,932

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

24. LEASE LIABILITIES (continued)

	30 June 2023 SR	30 June 2022 SR
Future minimum lease payment	16,303,032	17,428,932
Less: un-amortized finance charges	(4,715,196)	(4,310,424)
Present value of minimum lease payment	11,587,836	13,118,508
Less: current-portion of lease payment	(2,251,800)	(2,251,800)
Non-current portion	9,336,036	10,866,708

25. ACCRUED EXPENSES AND OTHER LIABILITIES

	30 June 2023 SR	30 June 2022 SR
Accrued salaries and related benefits	18,576,538	10,587,773
VAT Payable	5,236,721	555,542
Unearned finance income	1,071,145	1,362,681
Retention payable	433,295	433,295
Unearned income	183,231	892,606
Security deposit	115,355	115,355
Withholding tax payable	80,544	350,078
	25,696,829	14,297,330
Non-current portion	(923,838)	(1,186,501)
Current portion	24,772,991	13,110,829

26. ZAKAT AND INCOME TAX

	30 June 2023 SR	30 June 2022 SR
Zakat payable	2,290,694	1,581,198
Income tax payable	196,008	-
	2,486,702	1,581,198

Charge for the year

Zakat and income tax charge for the year consists of the following:

	30 June 2023 SR	30 June 2022 SR
Zakat provided for the year	1,439,601	1,578,716
Income tax charged for the year	196,008	-
Zakat adjustments relating to previous years	-	(185,915)
	1,635,609	1,392,801

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

26. ZAKAT AND INCOME TAX (continued)

Charge for the year (continued)

The major components of the zakat base are as follow:

	30 June 2023 SR	30 June 2022 SR
Equity	51,820,439	32,554,318
Opening provisions and other adjustments	28,240,262	31,246,075
Book value of long-term assets	(59,943,379)	(25,229,466)
	20,117,322	38,570,927
Adjusted profit for the year	31,554,351	23,379,184
Zakat base	51,671,673	61,950,111

The differences between the financial and the zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable income.

Income tax is only applicable to AZM Tajrubah for information technology company. Tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the year.

The movement in provision for zakat and income tax during the year is as follows:

	30 June 2023 SR	30 June 2022 SR
At the beginning of the year	1,581,198	941,005
Charge during the year	1,635,609	1,392,801
Paid during the year	(730,105)	(752,608)
At the end of the year	2,486,702	1,581,198

Status of zakat assessments

The Group filed its zakat return to the Zakat, Tax and Customs Authority ("ZATCA") up to the financial year ended 30 June 2022 and is still awaiting final zakat assessments.

27. COST OF REVENUE

	2023 SR	2022 SR
Salaries, wages and related costs	114,484,860	98,878,921
Consulting	21,025,642	6,685,127
Travel, transport and vacations	3,945,080	2,872,857
Insurance	3,902,453	2,469,293
IT expenses	2,081,175	8,312,597
Employees' defined benefits liabilities	1,989,851	1,358,256
Amortization (note 8)	-	296,986
Others	4,466,224	875,710
	151,895,285	121,749,747

**SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

28. SELLING AND DISTRIBUTION EXPENSES

	2023 SR	2022 SR
Expected credit loss provision (note 15 & 16)	777,034	730,418
Marketing	24,149	1,350,740
Exhibition fees	-	58,396
	<u>801,183</u>	<u>2,139,554</u>

29. GENERAL AND ADMINISTRATIVE EXPENSES

	2023 SR	2022 SR
Salaries, wages and related costs	10,852,154	8,053,342
Professional fees	1,613,384	1,568,443
Social insurance	1,178,519	910,781
Depreciation of property and equipment (note 6)	989,075	357,967
Right-of-use assets depreciation	707,020	438,047
End of service benefits	684,006	599,645
Insurance	591,042	311,649
IT expenses	429,368	272,630
Board of directors' and committees remuneration	421,000	-
Tax expense	311,790	285,716
Training expenses	274,499	53,304
Others	2,295,474	1,303,023
	<u>20,347,331</u>	<u>14,154,547</u>

30. FINANCE COST

	2023 SR	2022 SR
Interest on lease liabilities	685,366	183,315
Finance charges on loan	344,531	454,980
Interest on employees' defined benefits liabilities (note 22)	134,817	51,661
	<u>1,164,714</u>	<u>689,956</u>

**SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

31. OTHER INCOME

	2023 SR	2022 SR
Gain on disposal of investment in associates (note 9)	5,295,473	4,778,000
Unrealised gain on the sale of FVPL (note 13)	788,945	441,171
Rental income from sub lease	526,661	-
Realised gain on the sale of FVPL (note 13)	230,528	-
Gain on disposal of property and equipment	52,174	347,826
Gain on the disposal of right-of-use assets	-	146,367
Others	769,109	82,060
	7,662,890	5,795,424

32. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the income attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by dividing the profit for the year by the adjusted weighted average number of ordinary shares outstanding during the year, to assume conversion of all dilutive potential shares into ordinary shares.

As at 30 June 2023 and 2022, diluted earnings per share is equal to basic earnings per share.

	30 June 2023 SR	30 June 2022 SR
Income attributable to equity holders of the parent	23,081,725	19,104,434
Weighted average number of ordinary shares (note 19)	59,501,500	60,000,000
Basic and diluted, income per share	0.39	0.32

33. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Set out below is a summary of financial assets, other than cash and cash equivalents, held by the Group as at 30 June 2023 and 2022:

	30 June 2023 SR	30 June 2022 SR
<i>Financial assets at amortised cost</i>		
Financial assets at amortised cost	24,995,169	-
Trade receivables	23,919,701	11,203,046
Contract assets	20,538,603	13,442,711
Due from related parties	1,137,210	1,280,993
<i>Financial assets measured at fair value</i>		
Financial assets at fair value through OCI	1,770,881	1,883,524
Financial assets at fair value through profit or loss	25,019,473	17,000,000
<i>Total financial assets</i>	97,381,037	44,810,274
<i>Total current</i>	70,614,987	42,926,750
<i>Total non-current</i>	26,766,050	1,883,524

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

33. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Set out below is a summary of financial liabilities, other than cash, held by the Group as at 30 June 2023 and 2022:

	30 June 2023 SR	30 June 2022 SR
<i>Financial liabilities at amortised cost</i>		
Long-term loans	3,605,445	-
Current portion of long-term loan	4,639,555	2,012,606
Trade payables	3,251,888	11,192,609
Due to related parties	8,537,580	-
Contract liabilities	24,691,027	9,910,860
<i>Total financial liabilities</i>	<u>44,725,495</u>	<u>23,116,075</u>
<i>Total current</i>	41,120,050	23,116,075
<i>Total non-current</i>	3,605,445	-

The fair values of the financial assets and liabilities of the Group at the reporting date are not materially different from their carrying values as at 30 June 2023 and 2022.

34. FAIR VALUE HIERARCHY

The following table provides the fair value measurement hierarchy of the Group's financial assets as at 30 June 2023 and 2022. There are no financial liabilities measured at fair value.

		<i>Fair value measurement using</i>		
	<i>Total</i>	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>
<i>As at 30 June 2023</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<i>Financial assets measured at fair value</i>				
Financial assets at fair value through other comprehensive income	1,770,881	-	-	1,770,881
<i>Financial assets measured at fair value</i>				
Financial assets at fair value through profit or loss	25,019,473	25,019,473	-	-
<i>As at 30 June 2022</i>				
<i>Financial assets measured at fair value</i>				
Financial assets at fair value through other comprehensive income	1,883,524	-	-	1,883,524
<i>Financial assets measured at fair value</i>				
Financial assets at fair value through profit or loss	17,000,000	17,000,000	-	-

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

34. FAIR VALUE HIERARCHY (continued)

There were no transfers between Level 1 and Level 2 fair value measurements during the year, and no transfers into or out of Level 3 fair value measurements during the year ended 30 June 2023.

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

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.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction

The Group's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's continuing profitability. The Group is exposed to market risk (which includes interest rate risk, currency risk and price risk), liquidity risk, credit risk and investment holding period risk arising from the financial instruments it holds.

Financial risk factors

The Group's financial assets include cash and cash equivalents, trade receivables, contract assets, due from related parties, investment at FVOCI and FVPL and financial assets at amortised cost that result directly from its operations. The Group's financial liabilities comprise of borrowings, contract liabilities, due to related parties, trade and other payables.

The Group is exposed to market risk (currency risk, interest rate risk), credit risk, and liquidity risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors has an overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies. Management reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Risk management structure

A cohesive organisational structure is established within the Group in order to identify, assess, monitor and control risks.

Board of Directors

The apex of risk governance is the centralised oversight of the Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

Senior management

Senior management is responsible for the day to day operations towards achieving the strategic goals within the Group's pre-defined risk appetite.

Risk mitigation

The risks faced by the Group and the way these risks are mitigated by management are summarised below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
30 June 2023

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iv) Credit risk (continued)

Accounts receivable

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and sector in which customers operate.

Loss rates are based on actual historic credit loss experience. These rates reflect differences between economic conditions during the year over which the historic data has been collected, current conditions and the Group view of economic conditions over the expected lives of the receivables. Scalar factors are based on actual and forecast gross domestic product growth. The Group provides for receivables by applying the simplified approach to assess the expected credit losses.

Credit concentration

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic political or other conditions.

No significant concentrations of credit risk were identified by the management as at the reporting date.

The management has conducted an assessment as required under IFRS 9 and based on such assessment, the management believes that there is no need for any significant impairment loss against the carrying value of cash and cash equivalents, due from related parties and other financial assets.

The following table provides information about the exposure to credit risk and ECLs for accounts receivable and contract asset as at 30 June:

	<i>Gross carrying amount SR</i>	<i>Impairment loss SR</i>	<i>Loss allowance %</i>
30 June 2023			
Not due	17,077,715	252,484	1.48%
Past due 1-90 days	4,508,134	218,396	4.84%
Past due 91-180 days	945,849	81,454	8.61%
Past due 181-270 days	2,492,350	623,087	25.00%
Past due 271 - 365 days	381,976	310,902	81.39%
More than 365 days	180,302	180,302	100.00%
	<u>25,586,326</u>	<u>1,666,625</u>	<u>6.51%</u>
	<i>Gross carrying amount SR</i>	<i>Impairment loss SR</i>	<i>Loss allowance %</i>
30 June 2022			
Not due	2,234,503	6,582	0.29%
Past due 1-90 days	5,940,887	77,090	1.30%
Past due 91-180 days	1,420,117	75,412	5.31%
Past due 181-270 days	2,355,456	588,833	25.00%
Past due 271 - 365 days	-	-	-
More than 365 days	450,419	450,419	100.00%
	<u>12,401,382</u>	<u>1,198,336</u>	<u>9.66%</u>

(v) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always 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 reputation.

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(vi) Liquidity risk (continued)

Management believes that the Group is not exposed to significant risks in relation to liquidity and maintains different lines of credit.

The table below summarizes the maturity profile of the Group financial liabilities based on contractual undiscounted payments:

30 June 2023	<i>Carrying Amount SR</i>	<i>Contractual Cashflow SR</i>	<i>Within one year SR</i>
Current portion of long-term loan	4,639,555	4,639,555	4,639,555
Trade payables	3,251,888	3,251,888	3,251,888
Due to related parties	8,537,580	8,537,580	8,537,580
Contract liabilities	24,691,027	24,691,027	24,691,027
Total	41,120,050	41,120,050	41,120,050
	<i>Carrying Amount SR</i>	<i>Contractual Cashflow SR</i>	<i>Within one year SR</i>
30 June 2022			
Current portion of long-term loan	2,012,606	2,012,606	2,012,606
Trade payables	11,192,609	11,192,609	11,192,609
Contract liabilities	9,910,860	9,910,860	9,910,860
Total	23,116,075	23,116,075	23,116,075

36. CAPITAL MANAGEMENT

Capital is equity attributable to the shareholders of the Group. The Group objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

The management policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. The management monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity. The management also monitors the level of dividends to the shareholders.

There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements. The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

	<i>30 June 2023 SR</i>	<i>30 June 2022 SR</i>
Total liabilities	89,577,962	55,776,030
Less: cash and bank balances	(27,595,279)	(27,221,636)
Net debt	61,982,683	28,554,394
Total equity	69,281,322	51,820,439
Gearing ratio	0.89	0.55

SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's financial assets and liabilities based on contractual undiscounted receipts and payments:

<i>30 June 2023</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Trade receivables	23,919,701	-	23,919,701
Contract assets	20,538,603	-	20,538,603
Due from related parties	1,137,210	-	1,137,210
Financial assets at fair value through profit or loss	25,019,473	-	25,019,473
Financial assets at fair value through OCI	-	1,770,881	1,770,881
Financial assets at amortized cost	-	24,995,169	24,995,169
TOTAL ASSETS	70,614,987	26,766,050	97,381,037
LIABILITIES			
Trade payable	3,251,888	-	3,251,888
Current portion of long-term loans	4,639,555	-	4,639,555
Due to related parties	8,537,580	-	8,537,580
Contract liabilities	24,691,027	-	24,691,027
TOTAL LIABILITIES	41,120,050	-	41,120,050

<i>30 June 2022</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Trade receivables	11,203,046	-	11,203,046
Contract assets	13,442,711	-	13,442,711
Due from related parties	1,280,993	-	1,280,993
Financial assets at fair value through profit or loss	17,000,000	-	17,000,000
Financial assets at fair value through OCI	-	1,883,524	1,883,524
TOTAL ASSETS	42,926,750	1,883,524	44,810,274
LIABILITIES			
Trade payable	11,192,609	-	11,192,609
Current portion of long-term loans	2,012,606	-	2,012,606
Contract liabilities	9,910,860	-	9,910,860
TOTAL LIABILITIES	23,116,075	-	23,116,075

38. CONTINGENCIES

At 30 June, the Group has contingencies for the following bank guarantees:

	<i>2023 SR</i>	<i>2022 SR</i>
Letter of guarantees	25,732,387	21,704,103

**SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

39. SEGMENT INFORMATION

The Group primarily operates its activities within the Kingdom of Saudi Arabia. Thus, the Group's segments are based on business and main activities. Business sectors of the Group represents the following main sectors:

- Enterprise Services
- Advisory
- Proprietary Technologies
- Platforms for third parties

Analysis of revenue and gross profit of the aforementioned main sectors are as follows:

30 June 2023	<i>Enterprise Services SR</i>	<i>Advisory SR</i>	<i>Proprietary Technologies SR</i>	<i>Platforms for third parties SR</i>	<i>Total SR</i>
Revenue	90,160,481	24,515,351	40,642,972	35,050,363	190,369,167
Cost of revenue	(69,039,475)	(19,224,514)	(32,111,986)	(31,519,310)	(151,895,285)
Gross profit	21,121,006	5,290,837	8,530,986	3,531,053	38,473,882
30 June 2022	<i>Enterprise Services SR</i>	<i>Advisory SR</i>	<i>Proprietary Technologies SR</i>	<i>Platforms for third parties SR</i>	<i>Total SR</i>
Revenue	89,445,689	39,198,581	9,333,691	14,582,507	152,560,468
Cost of revenue	(70,375,176)	(30,881,076)	(8,825,509)	(11,667,986)	(121,749,747)
Gross profit	19,070,513	8,317,505	508,182	2,914,521	30,810,721

The Group management does not believe that distributing the assets and liabilities for the Group's operations is appropriate to the internal administrative analysis. Accordingly, no information has been disclosed on the operating segments.

The results of all operating segments are reviewed regularly by the Groups management to take decisions on the allocated resources to segments, evaluate its performance, and ensure availability of specific financial information about each segment.

40. SUBSEQUENT EVENT

In the opinion of management, there have been no significant subsequent events since 30 June 2023 that would have a material impact on the financial position or financial performance of the Group as reflected in these consolidated financial statements.

**SAUDI AZM FOR COMMUNICATION AND INFORMATION TECHNOLOGY
COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2023

41. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation in the current year as below:

	<i>Amounts as previously presented SR</i>	<i>Reclassification SR</i>	<i>Reclassified amounts SR</i>
As at 30 June 2022			
Selling and distribution expenses (i)	1,409,136	730,418	2,139,554
General and administrative expenses (i) (ii)	14,953,085	(798,538)	14,154,547
Other income (ii)	5,863,544	(68,120)	5,795,424
Investment in an associate (iii)	1,891,258	(1,102,000)	789,258
Due from related parties (iii)	178,993	1,102,000	1,280,993
Investment in Finance lease (iv)	5,201,280	(672,000)	4,529,280
Current portion of investment in finance lease (iv)	-	672,000	672,000

- (i) The Group has reclassified from general and administrative expenses to selling and distribution expenses amounting to SR 730,418 pertains to the expected credit losses provision.
- (ii) The Group has reclassified from other income to general and administrative expenses amounting to SR 68,120 pertains to the employee salaries compensation.
- (iii) The Group has reclassified from investment in an associate to due from related parties amounting to SR 1,102,000 pertains to the amount receivable from the associate.
- (iv) The Group has reclassified from investment in finance lease to Current portion of investment in finance lease amounting to SR 672,000 pertains to the current portion of investment in finance lease.

42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors, on 12 Rabi Al-Awwal 1445H (corresponding to 27 September 2023).