

Saudi Chemical Holding Company (A Saudi Joint Stock Company)

Consolidated Financial Statements
For the Year Ended 31 December 2021

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

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For the Year Ended 31 December 2021

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Saudi Chemical Holding Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, 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 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants.

Basis for Opinion

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

Key Audit Matters

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

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

Independent Auditor's Report

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of goodwill</p> <p>As at 31 December 2021, the Group had a goodwill balance of SR 469.8 million.</p> <p>To assess if there is an impairment in the goodwill, the Group conducts goodwill impairment test annually or whenever changes in circumstances or events indicate that, the carrying amount of goodwill may not be recoverable.</p> <p>We considered this to be a key audit matter given the significant judgement and estimation required to determine recoverable amount and uncertainty inherent in underlying forecasts and assumptions.</p> <p><i>Refer to note 3.16 for the accounting policy related to impairment of non-financial assets and note 4 for the significant accounting estimates and assumption and judgements relating to impairment of non-financial assets and note 7 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> Involved our valuation specialists to assist in evaluating key assumptions and methodologies used by management, in particular those relating to the discount rates and terminal values. Corroborated input data to supporting evidence such as approved budgets and considered the reasonableness of these budgets. Tested the mathematical accuracy of cash flow models. Performed sensitivity analysis around the quantitative key assumptions, to assess if the selected adverse changes to the key assumptions, both individually and in aggregate, would not cause the carrying amount to exceed the recoverable amount.”. Assessed the adequacy of the relevant disclosures included in the consolidated financial statements.

Independent Auditor's Report

To the Shareholders of Saudi Chemical Holding Company (continued)

(A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Allowance for impairment of trade receivable	
<p>As at 31 December 2021, the Group's trade receivables amounted to SR 1.8 billion against which an impairment allowance of SR 160.8 million is maintained.</p> <p>The Group uses the expected credit loss model (ECL) as required by International Financial Reporting Standard 9 (Financial Instrument) (IFRS 9) to calculate allowance for impairment of trade receivable.</p> <p>We considered this as a key audit matter as it involves complex calculations and use of assumptions by management in addition to the materiality of the amounts involved.</p> <p><i>Refer to note 3.13 for the accounting policy related to allowance for impairment of trade receivable and note 4 for the significant accounting estimates and assumption and judgements related to allowance for impairment of trade receivable and note 10 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> Assessed the design, implementation, and operating effectiveness of the key controls related to: <ul style="list-style-type: none"> Recording of trade receivables and settlements. Trade receivables aging reports. Assessed significant assumptions, including collection rates, impairment ratios and those relating to future economic events that are used to calculate the expected credit loss. Involved our specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model). Tested the mathematical accuracy of the ECL model. Assessed the adequacy of the relevant disclosures included in the consolidated financial statements.

Independent Auditor's Report

To the Shareholders of Saudi Chemical Holding Company (continued)

(A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Provision of inventories	
<p>Inventories as at December 2021 amounted to SR 1.15 billion after considering provision of slow-moving, near-expiry and expired inventories of SR 50.4 million.</p> <p>Provision for near-expiry and expired inventory are required for products that are not subject to replacement or return by suppliers as well as slow-moving inventory.</p> <p>We considered the provision of inventory a key audit matter due to significant judgement by management that is required in assessing the appropriate level of the provision.</p> <p><i>Refer to note 3.15 for the accounting policy related to inventories and note 4 for the significant accounting estimates and assumption and judgements relating to provision for inventory and note 9 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Obtained an understating of the process and documentation that Group's management established and implemented in identifying items that are not subject to return or replacement by the suppliers. • Tested the accuracy of the aging report for a sample of products. • Tested, on a sample basis, the underlying data of the products included in the allowance calculation. ; • Assessed the adequacy of the relevant disclosures included in the consolidated financial statements.

Other matter

The financial statements of the Group for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 27 March 2021.

Other information included in The Group's 2021 Annual Report

Other information consists of the information included in the Group's 2021 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2021 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.

When we read the Group's 2021 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Independent Auditor's Report

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

for Ernst & Young Professional Services

Fahad M. Al-Toaimi
Certified Public Accountant
License No. (354)

Riyadh: 18 Shaaban 1443H
(21 March 2022)




Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Financial Position
As at 31 December 2021

	Note	2021 SR '000	2020 SR '000
Assets			
Non- current assets			
Property, plant and equipment	6	459,497	478,783
Capital work in progress	6	606,581	423,884
Intangible assets and goodwill	7	476,073	476,859
Right-of-use assets	8	12,517	11,501
Total non- current assets		1,554,668	1,391,027
Current assets			
Inventories	9	1,152,761	1,497,892
Trade receivables	10	1,615,020	1,693,713
Prepayments and other current assets	11	179,081	154,435
Cash and cash equivalents	12	101,194	150,326
Total current assets		3,048,056	3,496,366
Total assets		4,602,724	4,887,393
Liabilities and equity			
Equity			
Share capital	13	843,200	843,200
Statuary reserve	14	333,846	326,890
General reserve	15	340,000	340,000
Retained earnings		100,585	120,267
Equity attributable to equity holders of the parent		1,617,631	1,630,357
Non-controlling interests		7,617	7,138
Total Equity		1,625,248	1,637,495
Liabilities			
Non-current liabilities			
Saudi Industrial Development Fund's financing – non-current	16.1	352,707	298,899
Lease liabilities – non-current	17	7,858	8,316
Employees defined benefit liabilities	18	59,403	63,769
Total non-current liabilities		419,968	370,984
Current liabilities			
Saudi Industrial Development Fund's financing – current	16.1	8,000	20,600
Lease liabilities - current	17	2,689	2,019
Short-term loans	16.2	1,534,425	1,399,658
Trade payables		803,652	1,325,059
Accrued expenses and other liabilities	20	107,045	84,063
Zakat and income tax payable	21.1	46,229	34,207
Dividends payable	32	55,468	13,308
Total current liabilities		2,557,508	2,878,914
Total liabilities		2,977,476	3,249,898
Total equity and liabilities		4,602,724	4,887,393


Sameh Hassan
Group CFO


Eng. Thamer Al-Muhaid
Group CEO


Eng. Fahad S. Al-Jarbou
Chairman of BOD

The attached notes 1 to 36 form an integral part of these consolidated financial statements.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Profit or Loss
For the Year Ended 31 December 2021

	Note	2021 SR '000	2020 SR '000
Revenues	22	3,410,980	3,306,160
Cost of revenues		(2,979,079)	(2,869,752)
Gross profit		431,901	436,408
Selling and distribution expenses	23	(154,099)	(157,525)
General and administrative expenses	24	(106,435)	(115,969)
Expected credit loss on trade receivables	10	(28,454)	(13,289)
Operating profit		142,913	149,625
Finance costs	25	(42,354)	(41,703)
Other income, net	26	6,278	326
Profit before zakat and income tax		106,837	108,248
Zakat and income tax expense	21.1	(36,374)	(33,201)
Profit for the year		70,463	75,047
Profit for the year attributable to:			
Equity holders of the parent		69,570	74,026
Non-controlling interests		893	1,021
		70,463	75,047
Basic and diluted earnings per share (SR)	27	0.83	0.88



Sameh Hassan
Group CFO



Eng. Thamer Al-Muhaid
Group CEO



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Chairman of BOD

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Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2021

	Note	2021 SR '000	2020 SR '000
Profit for the year		70,463	75,047
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement gain on defined benefit plans	18.2	<u>2,036</u>	<u>2,387</u>
Other comprehensive income for the year		<u>2,036</u>	<u>2,387</u>
Total comprehensive income for the year		<u>72,499</u>	<u>77,434</u>
Attributable to:			
Equity holders of the parent		<u>71,594</u>	<u>76,391</u>
Non-controlling interests		<u>905</u>	<u>1,043</u>
		<u>72,499</u>	<u>77,434</u>



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Chairman of BOD

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Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2021

	<i>Attributable to the equity holders of the parent</i>					<i>Non-controlling interests</i>	<i>Total Equity</i>
	<i>Share capital</i>	<i>Statutory Reserve</i>	<i>General reserves</i>	<i>Retained earnings</i>	<i>Total</i>	<i>SR'000</i>	<i>SR'000</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
As at 1 January, 2020	843,200	319,488	340,000	51,278	1,553,966	6,095	1,560,061
Profit for the year	-	-	-	74,026	74,026	1,021	75,047
Other comprehensive income	-	-	-	2,365	2,365	22	2,387
Total comprehensive income	-	-	-	76,391	76,391	1,043	77,434
Transfer to statutory reserve	-	7,402	-	(7,402)	-	-	-
As at 31 December 2020	843,200	326,890	340,000	120,267	1,630,357	7,138	1,637,495
As at 1 January 2021	843,200	326,890	340,000	120,267	1,630,357	7,138	1,637,495
Profit for the year	-	-	-	69,570	69,570	893	70,463
Other comprehensive income	-	-	-	2,024	2,024	12	2,036
Total comprehensive income	-	-	-	71,594	71,594	905	72,499
Transfer to statutory reserve	-	6,956	-	(6,956)	-	-	-
Dividends (note 32)	-	-	-	(84,320)	(84,320)	(426)	(84,746)
As at 31 December 2021	843,200	333,846	340,000	100,585	1,617,631	7,617	1,625,248



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Group CFO



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Group CEO



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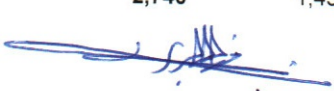
Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2021

	Note	2021 SR'000	2020 SR'000
Operating activities			
Profit before zakat and income tax		106,837	108,248
Adjustments for:			
Amortization of intangible assets	7	2,380	3,617
Depreciation of property, plant and equipment	6	41,011	40,762
Depreciation of right-of-use assets	8	2,372	2,172
Loss on sale of property, plant and equipment	6	137	45
Property, plant, and equipment written off	6	-	471
Write-off of intangible assets	7	-	35
Provision for slow-moving inventories	9	28,469	22,631
Expected credit loss on trade receivables	10	28,454	13,289
Provision for employees defined benefit obligation	18	8,250	7,893
Gain from present value adjustment on Saudi Industrial Development Fund's financing	16.1	(3,673)	-
Finance costs		42,354	41,703
Working capital changes:			
Inventories	9	256,591	240,866
Account receivables	10	316,662	(201,348)
Prepayment and other assets	11	50,239	287,269
Trade payable		(24,646)	(9,413)
Accrued expenses and other liabilities	20	(521,407)	(240,276)
		22,982	45,272
Cash from operations		100,421	122,370
Employees defined benefit obligation paid	18	(11,805)	(10,055)
Zakat and income tax paid	21	(24,352)	(28,773)
Finance cost paid	25	(41,129)	(40,318)
Net cash from operating activities		23,135	43,224
INVESTING ACTIVITIES			
Purchase of intangible assets	7	(1,594)	(7,500)
Purchase of property, plant and equipment and capital work in progress	6	(201,934)	(271,891)
Proceeds from disposal of property, plant, and equipment	6	115	301
Net cash used in investing activities		(203,413)	(279,090)
FINANCING ACTIVITIES			
Change in Saudi Industrial Development Fund's financing	16.1	42,141	208,442
Payment of principal portion of lease liabilities	17	(3,176)	(2,094)
Change in short-term loans	16.2	134,767	88,014
Dividends paid to equity holders of the parent	32	(42,160)	-
Dividends paid to non-controlling interests		(426)	-
Net cash from financing activities		131,146	294,362
(Decrease) increase in bank cash and cash equivalents		(49,132)	58,496
Cash and cash equivalents at the beginning of the year		150,326	91,830
Cash and cash equivalent at the end of the year		101,194	150,326
SIGNIFICANT NON-CASH TRANSACTIONS:			
Additions to right-of-use assets	8	3,388	2,501
Transfer from capital work in progress to property, plant, and equipment	6	13,511	35,619
Amortized finance cost capitalized to constructions in progress	16.1	2,740	1,452


Sameh Hassan
Group CFO


Eng. Thamer Al-Muhaid
Group CEO


Eng. Fahad S. Al-Jarbou
Chairman of BOD

The attached notes 1 to 36 form an integral part of these consolidated financial statements.

Saudi Chemical Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

1. ACTIVITIES

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

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

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

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

<i>Subsidiary</i>	<i>Country of incorporation</i>	<i>Main Activity</i>	<i>Ownership %</i>	
			31 December 2021	<i>31 December 2020</i>
Saudi International Trading Company ("SITCO Pharma")	KSA	Distribution of Medicines	99%	99%
Suez International Nitrate Company ("SINCO")	Egypt	Production of Ammonium Nitrate	100%	100%
Chemical Company for Commercial Investment Limited ("CCCIL")	KSA	Includes wholesale and retail trade in medicines and medical equipment	100%	100%
AJA Pharmaceuticals Industries Company Limited ("AJA Pharma")	KSA	Establishment & Ownership of medical factories	100%	100%
Saudi Chemical Company Limited ("SCCL")	KSA	Establishment & Ownership of explosives factories	100%	100%

Saudi Chemical Holding Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2021

2. BASIS OF PREPARATION AND CONSOLIDATION

2.1 Basis of preparation

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

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

The preparation of the consolidated financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia requires the use of certain significant accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Business combinations and goodwill

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

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

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

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

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

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

3.2 Current versus non-current classification

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

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

All other assets are classified as non-current.

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At 31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Current versus non-current classification (continued)

A liability is current when:

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

The Group classifies all other liabilities as non-current

3.3 Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Revenue from contracts with customers

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

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

Sale of goods – other than pharmaceutical and related products

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

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

Sale of goods – pharmaceutical and related products

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

Revenue from services

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

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

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

Variable consideration

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Zakat and Taxes

Zakat

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

Current and deferred taxes

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

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

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

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

Value Added Tax ("VAT")

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

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

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

Withholding tax

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

3.6 Foreign currencies

Transactions and balances

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

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Cash dividends

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

3.8 Property, plant and equipment

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

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

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

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

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

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

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

3.9 Capital work in progress

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Leases

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

Group as a lessee

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

Right-of-use assets

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

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

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

3.11 Borrowing costs

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Intangible assets other than goodwill

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

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

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

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

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

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

	<i>Useful life</i>
Computer software	5-8
New Brand Key money	5

3.13 Financial instruments

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

Financial assets

Initial recognition and measurement

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

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

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

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

Subsequent measurement

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

Derecognition

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

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

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

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

Impairment

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (continued)

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Derecognition

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

3.14 Offsetting of financial instruments

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

3.15 Inventories

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Impairment of non-financial assets

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

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

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

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

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

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

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

3.17 Cash and cash equivalents

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Provisions

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

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

3.19 Employees' benefits

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

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

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

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

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

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

3.20 Standards 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 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 IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, 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

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Standards issued but not yet effective (continued)

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 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 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

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

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling 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 recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

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

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. 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 amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

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

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. 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. An entity 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 amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments 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 amendments are not expected to have a material impact on the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Standards issued but not yet effective (continued)

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the International Accounting Standards Board issued amendments to IAS 8, introducing a definition of "accounting estimates". Adjustments clarify the difference between changes in accounting estimates and changes in accounting policies and corrections of errors. It also describes how entities use measurement and input techniques to develop accounting estimates.

The amendment is effective for annual periods beginning on or after 1 January 2023 and applies to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early application is permitted as long as the relevant estimates are disclosed.

The amendment is not expected to have a material impact on the Group.

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides 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 to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND JUDGEMENTS

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

Judgements

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

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

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

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

Revenue recognition

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

Gross versus net presentation

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

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

Transfer of control in contracts with customers

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

Estimates and assumptions

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

Impairment of non-financial assets

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

Provision for expected credit losses of trade receivables

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

Useful lives of property, plant and equipment

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

Useful lives of intangible assets

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

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

Provision for inventory

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

Employees' end-of-service benefits

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

Discount rate

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

Mortality rate

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

Salary rate

Estimates of future salary increase, takes into account inflation, seniority, promotion and past history. Further details about employees' end-of-service benefits are provided in note 18.

Leases – Estimating the incremental borrowing rate

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

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

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

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5. SEGMENT INFORMATION

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

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

	<i>Explosive SR '000</i>	<i>Medicine and medical supplies SR '000</i>	<i>Production of ammonium nitrate SR '000</i>	<i>Head office SR '000</i>	<i>Eliminations /adjustments SR '000</i>	<i>Consolidated SR '000</i>
As at 31 December 2021						
Segment assets	844,542	3,305,437	151,075	1,766,055	(1,464,385)	4,602,724
Segment liabilities	690,626	2,458,411	126,052	147,872	(445,485)	2,977,476
As at 31 December 2020						
Segment assets	752,506	3,569,989	149,416	1,852,672	(1,437,190)	4,887,393
Segment liabilities	627,448	2,863,000	121,045	222,315	(583,910)	3,249,898

	<i>Explosive SR '000</i>	<i>Medicine and medical supplies SR '000</i>	<i>Production of ammonium nitrate SR '000</i>	<i>Head office SR '000</i>	<i>Eliminations /adjustments SR '000</i>	<i>Consolidated SR '000</i>
31 December 2021						
Revenues						
External revenues	280,918	3,111,900	18,162	-	-	3,410,980
Intersegment revenue	-	57,944	44,758	-	(102,702)	-
	280,918	3,169,844	62,920	-	(102,702)	3,410,980
31 December 2021						
Cost of sales	(154,242)	(2,865,441)	(56,031)	-	96,635	(2,979,079)
Amortization	-	(2,337)	-	(46)	-	(2,383)
Depreciation	(9,424)	(24,858)	(4,932)	(1,797)	-	(41,011)
Depreciation of right-of-use assets	(652)	(1,719)	-	-	-	(2,371)
Impairment of trade receivables	(16,831)	(11,622)	-	-	-	(28,453)
Other operating expenses and other income	(70,912)	(206,245)	(4,754)	73,989	(77,262)	(285,184)
Segment comprehensive income	28,857	57,622	(2,797)	72,146	(83,329)	72,499

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5. SEGMENT INFORMATION (CONTINUED)

	<i>Explosive SR '000</i>	<i>Medicine and medical supplies SR '000</i>	<i>Production of ammonium nitrate SR '000</i>	<i>Head office SR '000</i>	<i>Eliminations /adjustments SR '000</i>	<i>Total SR '000</i>
<i>31 December 2020</i>						
<i>Revenues</i>						
External revenues	275,371	3,018,404	12,385	-		3,306,160
Intersegment revenue	-	38,085	48,596	-	(86,681)	-
	<u>275,371</u>	<u>3,056,489</u>	<u>60,981</u>	<u>-</u>	<u>(86,681)</u>	<u>3,306,160</u>
<i>31 December 2020</i>						
Cost of sales	(145,491)	(2,758,478)	(47,491)	-	86,681	(2,864,779)
Amortization	-	(5,148)	-	(47)	-	(5,195)
Depreciation	(9,356)	(24,692)	(4,971)	(1,744)	-	(40,763)
Depreciation of right-of-use assets	(664)	(1,507)	-	-	-	(2,171)
Impairment of trade receivables	(9,649)	(3,640)	-	-	-	(13,289)
Other operating expenses and other income	<u>(72,449)</u>	<u>(213,906)</u>	<u>(9,521)</u>	<u>78,183</u>	<u>(84,836)</u>	<u>(302,529)</u>
Segment comprehensive income	<u>37,762</u>	<u>49,118</u>	<u>(1,002)</u>	<u>76,392</u>	<u>(84,836)</u>	<u>77,434</u>

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

	<i>Land SR '000</i>	<i>Buildings and Infrastructure Costs SR '000</i>	<i>Leasehold Improvements SR '000</i>	<i>Machinery and Equipment SR '000</i>	<i>Furniture, Fixtures and Tools SR '000</i>	<i>Vehicles and Transportation Equipment SR '000</i>	<i>2021 Total SR '000</i>	<i>Capital Work in Progress SR '000</i>
<i>Cost:</i>								
As at 1 January 2021	30,973	436,398	52,190	297,478	25,666	70,658	913,363	423,884
Additions	-	2,632	526	4,073	540	695	8,466	196,208
Disposals	-	-	(185)	(166)	(329)	(250)	(930)	-
Transfers	-	13,511	-	-	-	-	13,511	(13,511)
As at 31 December 2021	30,973	452,541	52,531	301,385	25,877	71,103	934,410	606,581
<i>Accumulated depreciation:</i>								
As at 1 January 2021	-	184,149	18,762	155,706	19,738	56,225	434,580	-
Charge for the year	-	9,856	2,567	20,781	1,330	6,477	41,011	-
Disposals	-	-	(38)	(148)	(242)	(250)	(678)	-
As at 31 December 2021	-	194,005	21,291	176,339	20,826	62,452	474,913	-
<i>Net book value:</i>								
As at 31 December 2021	30,973	258,536	31,240	125,046	5,051	8,651	459,497	606,581

Finance costs included in the cost of qualifying assets during the year ended 31 December 2021 amounted to SR 4.7 million (31 December 2020: SR 4.8 million).

Capital work in progress as of 31 December 2021 represents mainly the costs incurred in constructing the Group's pharmaceutical factory in Ha'il Industrial City, new explosives plant in Riyadh, as well as other projects undertaken to comply with security regulations.

The Group's pharmaceutical factory in Ha'il and the new explosives plant in Riyadh including the buildings, machineries, vehicles and all related assets have been pledged to the benefit of SIDF to secure the related loans.

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

	<i>Land</i> <i>SR '000</i>	<i>Buildings and</i> <i>Infrastructure</i> <i>Costs</i> <i>SR '000</i>	<i>Leasehold</i> <i>Improvements</i> <i>SR '000</i>	<i>Machinery</i> <i>and Equipment</i> <i>SR '000</i>	<i>Furniture,</i> <i>Fixtures and</i> <i>Tools</i> <i>SR '000</i>	<i>Vehicles and</i> <i>Transportation</i> <i>Equipment</i> <i>SR '000</i>	<i>2020</i> <i>Total</i> <i>SR '000</i>	<i>Capital Work</i> <i>in Progress</i> <i>SR '000</i>
<i>Cost:</i>								
As at 1 January 2020	30,973	424,062	49,639	264,454	25,279	67,612	862,019	205,219
Additions	-	1,540	3,373	8,967	321	3,870	18,071	254,284
Disposals	-	-	-	(679)	(21)	(824)	(1,524)	-
Write-off	-	-	(822)	-	-	-	(822)	-
Transfers	-	10,796	-	24,736	87	-	35,619	(35,619)
As at 31 December 2020	<u>30,973</u>	<u>436,398</u>	<u>52,190</u>	<u>297,478</u>	<u>25,666</u>	<u>70,658</u>	<u>913,363</u>	<u>423,884</u>
<i>Accumulated depreciation:</i>								
As at 1 January 2020	-	174,472	16,395	135,824	18,600	50,056	395,347	-
Charge for the year	-	9,677	2,718	20,335	1,159	6,873	40,762	-
Disposals	-	-	-	(453)	(21)	(704)	(1,178)	-
Write-off	-	-	(351)	-	-	-	(351)	-
As at 31 December 2020	<u>-</u>	<u>184,149</u>	<u>18,762</u>	<u>155,706</u>	<u>19,738</u>	<u>56,225</u>	<u>434,580</u>	<u>-</u>
<i>Net book value:</i>								
As at 31 December 2020	<u>30,973</u>	<u>252,249</u>	<u>33,428</u>	<u>141,772</u>	<u>5,928</u>	<u>14,433</u>	<u>478,783</u>	<u>423,884</u>

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7. INTANGIBLE ASSETS AND GOODWILL

	<i>New Brand Key Money SR'000</i>	<i>Computer Software SR'000</i>	<i>Goodwill SR'000</i>	<i>Total SR'000</i>
<i>Cost</i>				
As at 1 January 2021	12,500	19,432	469,807	501,739
Additions	-	1,594	-	1,594
As at 31 December 2021	12,500	21,026	469,807	503,333
<i>Amortization and impairment</i>				
As at 1 January 2021	6,500	18,380	-	24,880
Amortization	1,500	880	-	2,380
As at 31 December 2021	8,000	19,260	-	27,260
Net Book Value				
As at 31 December 2021	4,500	1,766	469,807	476,073
	<i>New Brand Key Money SR'000</i>	<i>Computer Software SR'000</i>	<i>Goodwill SR'000</i>	<i>Total SR'000</i>
<i>Cost</i>				
As at 1 January 2020	5,000	19,467	469,807	494,274
Additions	7,500	-	-	7,500
Disposal	-	(35)	-	(35)
As at 31 December 2020	12,500	19,432	469,807	501,739
<i>Amortization and impairment</i>				
As at 1 January 2020	4,000	17,263	-	21,263
Amortization	2,500	1,117	-	3,617
As at 31 December 2020	6,500	18,380	-	24,880
Net Book Value				
As at 31 December 2020	6,000	1,052	469,807	476,859

For impairment testing, goodwill acquired through business combinations is allocated to the business CGUs. As at 31 December 2021, the goodwill amounted to SR 469.8 million (2020: SR 469.8 million). The Weighted Average Cost of Capital ("WACC") rate applied is 7.41%-7.86%. The WACC is calculated based on assumptions that reflect market assessments of the risk specific the CGU. Segment specific risk is incorporated by applying average beta factors. The beta factors are evaluated annually based on publicly available market data of the industry. The average effective zakat rate is assumed to be 2.5% (2020: 2.5%). The cash flow projections are derived from the respective business plan covering a period of five years. Cash flow projections beyond the five-year business plan are extrapolated taking into account an assumed growth rate of 2.0% (2020: 2.0%).

Based on the analysis, an increase of 100 basis points in the discount rate would result in a decrease in the VIU by 12.6%, while a decrease in 100 basis points in the discount rate would result in an increase of 17.9%. An increase in the terminal growth rate by 100 basis points would result in an increase of 14.7% in the value in use, while a decrease of 100 basis points in the rate would result in a decrease in the VIU by 10.4%. With respect to the assessment of the value in use, management believes that a reasonably possible change in its used assumptions would not cause the carrying value of its goodwill to exceed its recoverable amount. No impairment loss was recognized for 2021 and 2020 respectively.

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8. RIGHT-OF-USE ASSETS

	<i>Parcels of Land SR'000</i>	<i>Warehouses and offices SR'000</i>	<i>Total SR'000</i>
<i>Cost</i>			
As at 1 January 2021	10,168	5,191	15,359
Additions	-	3,388	3,388
As at 31 December 2021	10,168	8,579	18,747
<i>Accumulated Depreciation</i>			
As at 1 January 2021	2,357	1,501	3,858
Depreciation expense	1,177	1,195	2,372
As at 31 December 2021	3,534	2,696	6,230
Net Book Value			
As at 31 December 2021	6,634	5,883	12,517

	<i>Parcels of Land SR'000</i>	<i>Warehouses and offices SR'000</i>	<i>Total SR'000</i>
<i>Cost</i>			
As at 1 January 2020	10,168	2,690	12,858
Additions	-	2,501	2,501
As at 31 December 2020	10,168	5,191	15,359
<i>Accumulated Depreciation</i>			
As at 1 January 2020	1,177	509	1,686
Depreciation expense	1,180	992	2,172
As at 31 December 2020	2,357	1,501	3,858
Net Book Value			
As at 31 December 2020	7,811	3,690	11,501

9. INVENTORIES

	<i>2021 SR '000</i>	<i>2020 SR '000</i>
Pharmaceuticals	1,146,760	1,474,223
Raw materials (ammonium nitrate and other chemicals)	31,619	28,601
Finished goods (explosives)	15,904	13,350
Spare parts	4,713	5,080
Packaging material	4,199	3,702
	1,203,195	1,524,956
Less: provision for inventory	(50,434)	(27,064)
	1,152,761	1,497,892

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9. INVENTORIES (CONTINUED)

Movement in provision for inventory is as follows:

	2021 SR '000	2020 SR '000
As at 1 January	27,064	6,869
Provided during the year	28,469	22,631
Write offs	(5,099)	(2,436)
As at 31 December	50,434	27,064

10. TRADE RECEIVABLES

	2021 SR '000	2020 SR '000
Trade receivables	1,775,865	1,826,193
Less: Impairment on trade receivables	(160,845)	(132,480)
	1,615,020	1,693,713

Trade receivables from Saudi government institutions represented 60% of the total trade receivables as on 31 December 2021 (31 December 2020: 63% of the total trade receivable). These institutions have a strong credit rating in the Saudi market.

The Group recognized an allowance for expected credit losses for trade receivables for the year ended 31 December 2021 in the amount of SR 28.5 million (31 December 2020: SR 13.3 million).

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

	2021 SR '000	2020 SR '000
As at 1 January	132,480	119,364
Provided during the year	28,454	13,289
Write offs	(89)	(173)
As at 31 December	160,845	132,480

11. PREPAYMENTS AND OTHER CURRENT ASSETS

	2021 SR '000	2020 SR '000
Advances to suppliers	138,420	109,959
Tax authority receivable – Egypt	25,589	24,764
Prepaid expenses	3,784	3,564
Deferred registration and licensing fees	3,708	4,609
Value added tax receivable	3,569	8,094
Advances to employees	1,102	1,037
Insurance with others	320	319
Letter of guarantee	12	574
Other	2,577	1,515
	179,081	154,435

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12. CASH AND CASH EQUIVALENTS

	2021 SR '000	2020 SR '000
Cash at bank	100,395	149,507
Cash on hand	799	819
	101,194	150,326

13. SHARE CAPITAL

The Group's authorized, issued and paid-up share capital comprise 84,320,000 shares (31 December 2020: 84,320,000 shares) of SR 10 each amounting to SR 843,200,000 (31 December 2020: SR 843,200,000).

14. STATUTORY RESERVE

In accordance with the companies' law in the Kingdom of Saudi Arabia and the Company's By-law, 10% of the net income was taken as statutory reserve until it reached 50% of the share capital. Based on the approval of the Ordinary General Assembly of Shareholders at its meeting on 23 Rajab 1438H corresponding to 20 April 2017 it was resolved to cease the transfer to statutory since it reached half of the capital. Although the recent change in the Companies Law includes the cessation of transfer to statutory reserve when it reaches 30% as minimum instead of 50% of the share capital, the Group maintained the accumulated reserve at 50%. This reserve is not available for distribution to the Group's shareholders.

15. GENERAL RESERVE

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

16. LOANS AND BORROWINGS

16.1 Saudi Industrial Development Fund's Financing

The long-term loans were obtained by two subsidiaries of the Group from Saudi Industrial Development Fund ("SIDF") to meet the Group's capital expenditure. The first loan was obtained by AJA Pharmaceuticals Industries Limited ("AJA Pharma") during 2016 and amounted to SR 157.5 million, of which the full amount of the facility has been utilized as at 31 December 2021 (31 December 2020: SR 157.5 million). The second loan was obtained by Saudi Chemical Company Limited ("SCCL") during 2020 and amounted to SR 229 million, of which the full amount of the facility has been utilized as at 31 December 2021 (31 December 2020: SR 183.2 million).

During the year, AJA Pharma has defaulted on the repayment of two installments due on 28 January 2021 and 27 May 2021; respectively. As at 31 December 2021, AJA Pharma has restructured its agreement with SIDF to extend the maturity of the loan from September 2027 to August 2030. As part of the modification, the payment profile was also changed. Management has performed an analysis and believes that this does not result in the derecognition of the old borrowing. Management have discounted the present value of the new payment profile, which has resulted in a gain of SR 3.7 million, recorded under other income. Further, there is no change in the substance of the borrowing, apart from the change in the payment profile and extension of the tenure. The loan to AJA Pharma is repayable in sixteen semi-annual instalments starting from 15 Shawwal 1444 H (corresponding to 5 May 2023), while the loan to SCCL is repayable in fourteen semi-annual instalments starting from 15 Rabi Al-Thani 1444 H (corresponding to 9 November 2022).

The loans from SIDF carried fixed commission charges of SR 26.4 million, which have been paid upfront by the Group at the beginning of the loan term. The commission charges are being amortized over the terms of the loans. As at 31 December 2021, the unamortized balance amounted to SR 22.1 million (31 December 2020: SR 21.2 million).

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

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16. LOANS AND BORROWINGS (CONTINUED)

16.1 Saudi Industrial Development Fund's Financing (continued)

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

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

	2021 SR '000	2020 SR '000
Loans from Saudi Industrial Development Fund	386,500	340,700
Less: Unamortized processing fees	(22,121)	(21,201)
Present value adjustment	(3,672)	-
	360,707	319,499
Current	8,000	20,600
Non-Current	352,707	298,899
	360,707	319,499

Movements in unamortized transaction costs are as follows:

	2021 SR '000	2020 SR '000
As at 1 January	21,201	8,018
Additional transaction cost	3,660	14,635
Amortized during the year	(2,740)	(1,452)
As at 31 December	22,121	21,201

16.2 Short-Term Loans

The Group is using Islamic financing to finance its business operations. These facilities bear finance cost at SIBOR plus prevailing market rates. The facilities are secured by promissory notes. The facilities agreement includes covenants requiring the maintenance of certain levels of financial ratios, and one of the agreements includes acknowledge assignment of SIDF financing's proceeds in favor of lending bank. During 2021 Group was also in breach of certain banks covenants. However, subsequent to yearend, the Grope have received waiver letters.

17. LEASE LIABILITIES

	2021 SR '000	2020 SR '000
As at 1 January	10,335	9,928
Additions	3,388	2500
Accretion of interest	426	497
Payments	(3,602)	(2,590)
As at 31 December	10,547	10,335
Current	2,689	2,019
Non-Current	7,858	8,316
	10,547	10,335

The maturity analysis of lease liabilities is disclosed in Note 29.

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17. LEASE LIABILITIES (CONTINUED)

The following are the amounts recognised in profit or loss:

	2021 SR '000	2020 SR '000
Expense relating to short-term leases	2,974	4,236
Depreciation expense of right-of-use assets	2,372	2,172
Interest expense on lease liabilities	426	497
	<u>5,772</u>	<u>6,905</u>

18. EMPLOYEES DEFINED BENEFIT LIABILITIES

18.1 Employees' Benefit Expense

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

	2021 SR '000	2020 SR '000
Service cost	8,250	7,893
Interest cost	1,225	1,385
	<u>9,475</u>	<u>9,278</u>

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

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

	2021 SR '000	2020 SR '000
As at 1 January	63,769	66,933
Service cost	8,250	7,893
Interest cost	1,225	1,385
Re-measurement of defined benefit liability	(2,036)	(2,387)
Benefits paid	(11,805)	(10,055)
As at 31 December	<u>59,403</u>	<u>63,769</u>

18.3 Principal Actuarial Assumptions

	2021 SR '000	2020 SR '000
Discount rate	2.11%-2.75%	2.11%
Salary increase rate	2.00%-2.94%	1.84%-2.94%

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18. EMPLOYEES DEFINED BENEFIT LIABILITIES (CONTINUED)

18.4 Maturity Profile of Employees' Defined Obligation

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

	2021 SR '000	2020 SR '000
One year or less	12,975	17,089
Above one year but less than five years	20,008	21,451
Above five years	35,999	33,645
	68,982	72,185

18.5 Employees' Defined Benefit Obligation Sensitivity Analysis

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

31 December 2021		Impact on employee benefit Obligations		
	Change in assumption	Base value	Increase in assumption	Decrease in assumption
		SR '000	SR '000	SR'000
Discount rate	100 basis points	59,403	56,064	60,325
Salary growth rate	100 basis points	59,403	63,354	57,625

31 December 2020		Impact on employee benefit Obligations		
	Change in assumption	Base value	Increase in assumption	Decrease in assumption
		SR '000	SR '000	SR'000
Discount rate	100 basis points	63,769	60,479	67,469
Salary growth rate	100 basis points	63,769	67,752	60,159

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the employees' terminal benefits liabilities as a result of reasonable changes in key assumptions occurring as at 31 December 2021 and 31 December 2020. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

The average duration of the defined benefit plan obligation as at 31 December 2021 is 5.31-8.85 years (31 December 2020: 4.70-9.26 years).

19. RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent shareholders, Directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. As at yearend, all related party transactions between subsidiaries were eliminated. No related party balances existed as at 31 December 2021 and 31 December 2020.

19.1 Compensation and benefits of key executives

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

	2021 SR '000	2020 SR '000
Short-term benefits and remuneration	10,716	9,090
Post-employment benefits	460	1,758
	11,176	10,848

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20. ACCRUED EXPENSES AND OTHER PAYABLES

	2021 SR '000	2020 SR '000
Accrued employee benefits	33,710	23,972
Provision for sale discount	18,752	12,517
Accrued expenses	16,967	8,325
Provision for lawsuits	15,506	20,873
Advances for customers	8,383	6,034
Accrued board of director remunerations	3,721	3,914
Other liabilities	10,006	8,428
	107,045	84,063

21. ZAKAT AND INCOME TAX

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

	2021 SR'000	2020 SR'000
As at 1 January 2021	34,207	29,779
Charged during the year	36,374	33,201
Paid during the year	(24,352)	(28,773)
As at 31 December 2021	46,229	34,207

21.2 Zakat Status

Zakat and income tax provisions of SR 36.4 million were recognized by the Group during the year ended 31 December 2021 (31 December 2020: SR 33.2 million). The Company, SITCO Pharma, CCCIL, AJA Pharma and SCCL have filed their zakat declarations and obtained zakat certificates for the years up to 2020.

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

As at 31 December 2021, the Company obtained the final zakat assessments from the ZATCA up to the year 2020, which resulted in an additional amount of SR 15.7 million. The assessment is being contested by the Company in accordance with the relevant procedures.

SITCO Pharma has filed its zakat declarations and obtained zakat certificates for the years up to 2019. During the year ended 31 December 2019, the Company obtained the final zakat assessments for years up to 2017 from the ZATCA.

21.3 Income Tax

The income tax expense payable by a foreign subsidiary, in accordance with the prevailing tax regulations in its country, for the year ended 31 December 2021 amounted to SR 63.2 thousand (31 December 2020: SR Nil). Income tax paid during the year ended 31 December 2021 amounted to SR Nil (31 December 2020: SR Nil).

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22. REVENUE

	2021 SR '000	2020 SR '000
Sale of goods	3,391,301	3,300,515
Rendering of services	19,679	5,645
	<u>3,410,980</u>	<u>3,306,160</u>
	2021 SR '000	2020 SR '000
Government	1,645,113	1,515,711
Non-government	1,765,867	1,790,449
	<u>3,410,980</u>	<u>3,306,160</u>

Refer to Note 5 for the segment distribution of revenue.

23. SELLING AND DISTRIBUTION EXPENSES

	2021 SR '000	2020 SR '000
Employee Costs	93,014	99,145
Freight and transportation	24,005	20,650
Depreciation	9,154	9,419
Insurance	6,677	5,467
Utilities	3,631	2,838
Rent	2,974	4,236
Registration and subscription Fees	2,094	2,381
Travel and accommodation	1,624	2,713
Advertising and promotional activities	1,538	899
Amortization of intangible assets	1,500	2,500
Commission and incentive	1,189	1,754
Samples	275	124
Exhibitions and conferences	270	427
Repair and maintenance	230	157
Professional and legal fees	196	164
Depreciation of right of use assets	162	162
Office supplies and stationery	26	27
Others	5,540	4,462
	<u>154,099</u>	<u>157,525</u>

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24. GENERAL AND ADMINISTRATIVE EXPENSES

	2021 SR '000	2020 SR '000
Employee cost	66,709	61,568
Professional and legal fees	7,764	5,791
Registration and subscription fees	7,511	4,508
Utilities	3,860	2,189
Depreciation	3,633	3,720
Board of directors remunerations	3,625	4,097
Depreciation of right of use assets	1,150	936
Provision against legal claims	1,083	20,635
Trips and accommodation	1,044	969
Amortization of intangible assets	883	1,116
Repairs and maintenance	571	413
Stationery and office supplies	217	472
Insurance	113	184
Impairment of other receivable	-	2,643
Others	8,272	6,728
	106,435	115,969

25. FINANCE COSTS

	2021 SR '000	2020 SR '000
SIDF financing	5,667	3,803
Lease liabilities	426	497
Employees' defined benefit liabilities	1094	1,385
Short-term loans	39,874	40,779
	47,061	46,464
Less: Finance costs included in the costs of qualifying assets	(4,707)	(4,761)
	42,354	41,703

26. OTHER INCOME, NET

Other income during the year ended 31 December 2021 included SR 4 million reimbursement of a penalty, and SR 3.7 million gain from present value adjustment on Saudi Development Industrial Fund financing (Note 16.1) in addition to other expenses amounted to SR 1.4 million.

27. BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share ("EPS") is computed using net profit for the year attributable to ordinary equity holders of the Group based on the weighted average number of shares outstanding during the year. The diluted earnings per share are the same as the basic earnings per share as the Group does not have any dilutive instruments in issue.

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

	2021 SR '000	2020 SR '000
Income for the year attributable to equity holders of the parent	69,570	74,026

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27. BASIC AND DILUTED EARNINGS PER SHARE (CONTINUED)

	2021 SR	2020 SR
Weighted average number of ordinary shares	84,320,000	84,320,000
Basic and diluted earnings per share attributable to equity holders of the parent	0.83	0.88

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. Financial assets consist of cash and cash equivalents and accounts receivable. Financial liabilities consist of long-term loans, accounts payable, advances from customers, accrued expenses and other liabilities and zakat payable.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group did not provide fair value disclosures, as it believes that the fair values of financial instruments are not materially different from their carrying values at reporting date largely

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

29.1 Market risk

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

29.2 Interest risk

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

Interest rate sensitivity

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

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

29.2 Interest risk (continued)

<i>31 December 2021</i>	<i>Change Change in rate</i>	<i>Impact on profit before zakat and income tax</i>	
		<i>Increase in SR '000</i>	<i>Decrease SR'000</i>
Variable rate financial instruments	100 basis points	(15,344)	15,344

<i>31 December 2020</i>	<i>Change Change in rate</i>	<i>Impact on profit before zakat and income tax</i>	
		<i>Increase in SR '000</i>	<i>Decrease SR'000</i>
Variable rate financial instruments	100 basis points	(13,997)	13,997

29.3 Foreign currency risk

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

29.4 Credit risk

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

	<i>2021 SR '000</i>	<i>2020 SR '000</i>
Trade receivables	1,615,020	1,693,713
Cash at banks	100,395	149,507
	<u>1,715,415</u>	<u>1,843,220</u>

Trade receivables

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

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

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

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

29.4 Credit risk (continued)

Trade receivables (continued)

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

31 December 2021

	<i>Total SR '000</i>	<i>Not past due SR '000</i>	<i>Past due</i>			
			<i>< 90 days SR '000</i>	<i>91 – 180 days SR '000</i>	<i>181 – 360 days SR '000</i>	<i>> 360 days SR '000</i>
Government receivables						
Expected credit loss rate		0.06%	0.64%	0.92%	1.54%	6.80%
The carrying value of trade receivables	1,059,571	631,630	55,514	61,150	66,614	244,663
Expected credit loss	18,963	389	353	563	1,023	16,635

31 December 2021

	<i>Total SR '000</i>	<i>Not past due SR '000</i>	<i>Past due</i>			
			<i>< 90 days SR '000</i>	<i>91 – 180 days SR '000</i>	<i>181 – 360 days SR '000</i>	<i>> 360 days SR '000</i>
Private sector receivables						
Expected credit loss rate		0.14%	1.24%	3.00%	6.93%	57.99%
The carrying value of trade receivables	716,294	378,171	55,906	24,737	24,170	233,310
Expected credit loss	141,882	516	695	741	1,674	138,256

31 December 2020

	<i>Total SR '000</i>	<i>Not past due SR '000</i>	<i>Past due</i>			
			<i>< 90 days SR '000</i>	<i>91 – 180 days SR '000</i>	<i>181 – 360 days SR '000</i>	<i>> 360 days SR '000</i>
Government receivables						
Expected credit loss rate		0.06%	0.59%	0.86%	1.52%	7.87%
The carrying value of trade receivables	1,144,087	783,022	101,776	35,356	58,477	165,456
Expected credit loss	15,270	453	598	304	886	13,029

31 December 2020

	<i>Total SR '000</i>	<i>Not past due SR '000</i>	<i>Past due</i>			
			<i>< 90 days SR '000</i>	<i>91 – 180 days SR '000</i>	<i>181 – 360 days SR '000</i>	<i>> 360 days SR '000</i>
Private sector receivables						
Expected credit loss rate		0.23%	2.37%	4.77%	17.24%	44.93%
The carrying value of trade receivables	682,106	305,624	69,646	24,732	47,265	234,839
Expected credit loss	117,210	707	1,651	1,179	8,149	105,524

Cash at banks

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

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

29.5 Liquidity risk

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

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

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

	<i>On demand</i>	<i>Within one year</i>	<i>One to five years</i>	<i>More than five years</i>	<i>Total</i>
<i>As at 31 December 2021</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Lease liabilities	-	2,836	5,570	2,204	10,610
SIDF financing	-	8,000	166,000	212,500	386,500
Short-term loans	-	1,534,425	-	-	1,534,425
Trade payables	803,652	-	-	-	803,652
Accrued expenses and other liabilities	107,045	-	-	-	107,045
Dividends payable	13,308	42,160	-	-	55,468
Zakat and income tax payable	46,229	-	-	-	46,229
	<u>970,234</u>	<u>1,587,421</u>	<u>171,570</u>	<u>214,704</u>	<u>2,943,929</u>

	<i>On demand</i>	<i>Within one year</i>	<i>One to five years</i>	<i>More than five years</i>	<i>Total</i>
<i>As at 31 December 2020</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Lease liabilities	-	1,840	5,362	2,932	10,134
SIDF financing	-	99,600	184,100	57,000	340,700
Short-term loans	-	1,399,658	-	-	1,399,658
Trade payables	1,325,059	-	-	-	1,325,059
Accrued expenses and other liabilities	84,063	-	-	-	84,063
Dividends payable	13,308	-	-	-	13,308
Zakat and income tax payable	34,207	-	-	-	34,207
	<u>1,456,637</u>	<u>1,501,098</u>	<u>189,462</u>	<u>59,932</u>	<u>3,207,129</u>

Saudi Chemical Holding Company
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2021

30. CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximize the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants.

The Group includes within net debt, loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations.

	2021 SR '000	2020 SR '000
SIDF financing	360,707	319,499
Short-term loans	1,534,425	1,399,658
Trade payables	803,652	1,325,059
Accrued expenses and other liabilities	107,045	84,063
Less: cash and cash equivalents	(101,194)	(150,326)
Net debt	2,704,635	2,977,953
Equity	1,625,248	1,637,495
Equity and net debt	4,329,883	4,615,448
	62%	65%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.

31. CONTINGENT LIABILITIES AND COMMITMENTS

31.1 Contingent liabilities

As at December 31, 2021, the Group had outstanding letters of guarantee amounting to SR 243.5 million (31 December 2020: SR 266.9 million), issued in the normal course of business of the group.

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

31.2 Commercial and capital commitments

As at December 31, 2021, the Group has outstanding letters of credit amounting to SR 158.3 million (31 December 2020: SR 310.6 million), and capital commitments outstanding as at 31 December 2021 in respect of capital work in progress projects of SR 151 million (31 December 2020: SR 194 million).

32. DIVIDENDS

The General Assembly, in its meeting held on 14 Shawwal 1442 (corresponding to 26 May 2021), approved the Board of Directors' recommendation to distribute cash dividends of SR 42,160,000 (0.50 Saudi Riyals per share) for the year ending on 31 December 2020, which was paid on 4 Dhul al-Qa'dah 1442H. (corresponding to 14 June 2021). The Board of Directors, in its meeting held on 18 Jumada Al Awal 1442H (corresponding to 22 December 2021), approved the distribution of cash dividends amounting to SR 42,160,000 for the period ended 30 September 2021.

33. SUBSEQUENT EVENTS

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

34. THE IMPACT OF COVID-19 PANDEMIC

A new strain of Coronavirus (Covid-19) was identified for the first time at the end of December 2019, during the month of March 2020, the World Health Organization proclaimed this a global pandemic. The new Corona virus continued to spread all over the world, including the Kingdom of Saudi Arabia, which causes implementation of travel restrictions and the imposition of a curfew in the cities, this resulted in a slowdown in economic activity and the closure of many sectors at the global and local level.

The extent of the impact of the Coronavirus pandemic on the Group's business, operations and financial results is uncertain and depends on many factors and future developments, which the Group may not be able to estimate reliably during the current period. These factors include the rate of transmission of the virus, the duration of the outbreak, the precautionary measures that government authorities may take to limit the spread of the epidemic, and the impact of those measures on economic activity.

Until the date of preparing these financial statements, the Group's business and operations were not materially affected by the consequences of the outbreak of the virus.

35. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been approved by the Board of Directors of the Group on 16 Shaaban 1443H (corresponding to 19 March 2022).

36. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform with current year presentation for the year ended 31 December 2021.