Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Financial Statements

For the Year Ended 31 December 2022

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For the Year Ended 31 December 2022

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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 2022, and the consolidated statement of profit or loss, 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 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current 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)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Impairment of goodwill</td></tr>
<tr><td>As at 31 December 2022, the Group had a goodwill balance of SR 469.8 million.

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.

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.

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.</td><td>Our audit procedures performed included, among others, the following:

• 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.</td></tr>
</table>

Independent Auditor's Report
To the Shareholders of Saudi Chemical Holding Company (continued)
(A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Allowance for impairment of trade receivable</td></tr>
<tr><td>As at 31 December 2022, the Group's trade receivables amounted to SR 1.7 billion against which an impairment allowance of SR 208.6 million is maintained.

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.

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.

Refer to note 3.13 for the accounting policy related to allowance for impairment of trade receivable and note 4 for the significant accounting estimates and assumption and judgements related to allowance for impairment of trade receivable and note 11 for the related disclosures.</td><td>Our audit procedures performed included, among others, the following:

• Assessed the design, implementation, and operating effectiveness of the key controls related to:
  ▪ 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.</td></tr>
</table>

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	
Inventories as at December 2022 amounted to SR 1.1 billion after considering provision of slow-moving, near-expiry and expired inventories of SR 32.4 million. 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. 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. *Refer to note 3.15 for the accounting policy related to inventories and note 4 for the significant accounting estimates and assumption and judgements relating to provision for inventory and note 10 for the related disclosures.*	Our audit procedures performed included, among others, the following: • Obtained an understating of the process and documentation that Group's management established and implemented in identifying items that are not subject to return or replacement by the suppliers. • Tested the accuracy of the aging report for a sample of products. • Tested, on a sample basis, the underlying data of the products included in the allowance calculation. ; • Assessed the adequacy of the relevant disclosures included in the consolidated financial statements.

Other information included in The Group's 2022 Annual Report

Other information consists of the information included in the Group's 2022 annual report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information in its annual report. The Group's 2022 annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by The Board of Directors.

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 The Board of Directors's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

for Ernst & Young Professional Services

Fahad M. Al-Toaimi
Certified Public Accountant
License No. (354)
Riyadh: 29 Sha'aban 1444H
(21 March 2023)

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Financial Position
As at 31 December 2022

	Note	2022 SR '000	2021 SR '000
Assets			
Non- current assets			
Property, plant and equipment	6	**429,073**	459,497
Capital work in progress	6	**731,079**	608,293
Intangible assets and goodwill	7	**614,218**	476,073
Right-of-use assets	8	**19,337**	12,517
Derivative financial instruments	9	**4,198**	-
Investment in a joint venture	20.2	**250**	-
Total non- current assets		**1,798,155**	1,556,380
Current assets			
Inventories	10	**1,107,992**	1,158,260
Trade receivables	11	**1,513,481**	1,615,020
Amounts due from a related party	20.2	**3,668**	-
Prepayments and other current assets	12	**122,651**	177,081
Cash and cash equivalents	13	**91,215**	101,194
Total current assets		**2,839,007**	3,051,555
Total assets		**4,637,162**	4,607,935
Liabilities and equity			
Equity			
Share capital	14	**843,200**	843,200
Statuary reserve	15	**341,868**	333,846
General reserve	16	**340,000**	340,000
Retained earnings		**134,815**	100,585
Equity attributable to equity holders of the parent		**1,659,883**	1,617,631
Non-controlling interests		**7,976**	7,617
Total Equity		**1,667,859**	1,625,248
Liabilities			
Non-current liabilities			
Long term Islamic loans	17.3	**405,000**	-
Saudi Industrial Development Fund's financing – non-current	17.1	**334,114**	357,370
Lease liabilities – non-current	18	**13,754**	7,858
Employees defined benefit liabilities	19	**56,532**	59,403
Total non-current liabilities		**809,400**	424,631
Current liabilities			
Saudi Industrial Development Fund's financing – current	17.1	**24,751**	5,048
Lease liabilities - current	18	**4,459**	2,764
Long-term loans - current	17.3	**35,000**	-
Short-term Islamic loans	17.2	**689,961**	1,534,425
Trade payables		**1,148,417**	801,317
Accrued expenses and other current liabilities	21	**144,652**	112,805
Zakat and income tax payable	22.1	**57,197**	46,229
Dividends payable	33	**55,466**	55,468
Total current liabilities		**2,159,903**	2,558,056
Total liabilities		**2,969,303**	2,982,687
Total equity and liabilities		**4,637,162**	4,607,935

Sameh Hassan Group CFO	Eng. Thamer Al-Muhaid Group CEO	Eng. Fahad S. Al-Jarbou Chairman of BOD

The attached notes 1 to 35 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 2022

	Note	*2022 SR '000*	*2021 SR '000*
Revenues	23	**3,695,868**	3,410,980
Cost of revenues		**(3,208,213)**	(2,979,079)
Gross profit		**487,655**	431,901
Selling and distribution expenses	24	**(159,483)**	(154,099)
General and administrative expenses	25	**(102,465)**	(107,749)
Expected credit loss on trade receivables	11	**(48,297)**	(28,454)
Operating profit		**177,410**	141,599
Finance costs	26	**(58,027)**	(41,040)
Other income, net	27	**3,040**	6,829
Foreign currency exchange losses		**(12,454)**	(551)
Revaluation gains on derivative financial instruments	9	**4,198**	-
Profit before zakat and income tax		**114,167**	106,837
Zakat and income tax expense	22.1	**(33,180)**	(36,374)
Profit for the year		**80,987**	70,463
Profit for the year attributable to:			
Equity holders of the parent		**80,223**	69,570
Non-controlling interests		**764**	893
		80,987	70,463
Basic and diluted earnings per share (SR)	28	**0.95**	0.83

Sameh Hassan
Group CFO

Eng. Thamer Al-Muhaid
Group CEO

Eng. Fahad S. Al-Jarbou
Chairman of BOD

The attached notes 1 to 35 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2022

	Note	***2022 SR '000***	*2021 SR '000*
Profit for the year		**80,987**	70,463
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement gain on defined benefit plans	19.1	**4,210**	2,036
Other comprehensive income for the year		**4,210**	2,036
Total comprehensive income for the year		**85,197**	72,499
Attributable to:			
Equity holders of the parent		**84,412**	71,594
Non-controlling interests		**785**	905
		85,197	72,499

Sameh Hassan
Group CFO

Eng. Thamer Al-Muhaid
Group CEO

Eng. Fahad S. Al-Jarbou
Chairman of BOD

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2022

	Attributable to the equity holders of the parent						
	Share capital SR'000	*Statutory Reserve SR'000*	*General reserves SR'000*	*Retained earnings SR'000*	*Total SR'000*	*Non-controlling interests SR'000*	*Total Equity SR'000*
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 33)	-	-	-	(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
As at 1 January 2022	**843,200**	**333,846**	**340,000**	**100,585**	**1,617,631**	**7,617**	**1,625,248**
Profit for the year	-	-	-	80,223	80,223	764	80,987
Other comprehensive income	-	-	-	4,189	4,189	21	4,210
Total comprehensive income	-	-	-	84,412	84,412	785	85,197
Transfer to statutory reserve	-	8,022	-	(8,022)	-	-	-
Dividends (note 33)	-	-	-	(42,160)	(42,160)	(426)	(42,586)
As at 31 December 2022	**843,200**	**341,868**	**340,000**	**134,815**	**1,659,883**	**7,976**	**1,667,859**

Sameh Hassan
Group CFO

Eng. Thamer Al-Muhaid
Group CEO

Eng. Fahad S. Al-Jarbou
Chairman of BOD

The attached notes 1 to 35 form an integral part of these consolidated financial statements.

Saudi Chemical Holding Company
(A Saudi Joint Stock Company)

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2022

	Note	2022 SR'000	2021 SR'000
Operating activities			
Profit before zakat and income tax		**114,167**	106,837
Adjustments for:			
Amortization of intangible assets		**2,382**	2,380
Depreciation of property, plant and equipment		**39,232**	41,011
Depreciation of right-of-use assets		**3,701**	2,372
Loss on sale of property, plant and equipment		**238**	137
Inventories provision		**20,255**	25,768
Expected credit loss on trade receivables		**48,297**	28,454
Provision for employees defined benefit obligation		**8,748**	8,250
Gain from present value adjustment on Saudi Industrial Development Fund's financing		**-**	(3,673)
Revaluation gains on derivative financial instruments		**(4,198)**	-
Finance costs		**58,027**	41,040
		290,849	252,576
Working capital changes:			
Inventories		**30,013**	316,485
Account receivables		**53,242**	50,239
Prepayment and other assets		**54,476**	(22,646)
Trade payable		**347,101**	(521,407)
Accrued expenses and other liabilities		**31,847**	27,209
Amounts due from a related party		**(3,668)**	-
Cash from operations		**803,860**	102,456
Employees defined benefit obligation paid		**(8,602)**	(11,805)
Zakat and income tax paid		**(22,212)**	(24,352)
Finance cost paid		**(57,237)**	(39,815)
Net cash from operating activities		**715,809**	26,484
INVESTING ACTIVITIES			
Purchase of intangible assets		**(140,250)**	(1,594)
Purchase of property, plant and equipment and capital work in progress		**(128,316)**	(203,646)
Proceeds from disposal of property, plant, and equipment		**131**	115
Net cash used in investing activities		**(268,435)**	(205,125)
FINANCING ACTIVITIES			
Change in Saudi Industrial Development Fund's financing		**(7,159)**	40,429
Payment of principal portion of lease liabilities		**(3,142)**	(3,101)
Change in short-term Islamic loans		**(844,464)**	134,767
Proceeds from long-term Islamic loans		**440,000**	-
Dividends paid to equity holders of the parent		**(42,162)**	(42,160)
Dividends paid to non-controlling interests		**(426)**	(426)
Net cash (used in) from financing activities		**(457,353)**	129,509
Decrease in cash and cash equivalents		**(9,979)**	(49,132)
Cash and cash equivalents at the beginning of the year		**101,194**	150,326
Cash and cash equivalent at the end of the year		**91,215**	101,194
SIGNIFICANT NON-CASH TRANSACTIONS:			
Additions to right-of-use assets		**10,521**	3,388
Transfer from capital work in in progress to property, plant, and equipment		**1,556**	13,511
Amortized finance cost capitalized to constructions in progress		**3,606**	3,469

Sameh Hassan	**Eng. Thamer Al-Muhaid**	**Eng. Fahad S. Al-Jarbou**
Group CFO	**Group CEO**	**Chairman of BOD**

The attached notes 1 to 35 form an integral part of these consolidated financial statements.

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:

			Ownership %	
Subsidiary	*Country of incorporation*	*Main Activity*	***31 December 2022***	*31 December 2021*
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%

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

2. BASIS OF PREPARATION AND CONSOLIDTION

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 2022. 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.

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.

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

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:

	Useful life
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.

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**:**

	Useful life
Computer software	5-8
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.

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.

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

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

3.17 Cash and cash equivalents

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

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

3. 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 Derivative financial instruments

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

3.21 Investments in joint ventures

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.21 Investments in joint ventures (continued)

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

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

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

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

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

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

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

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

3.22 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 2023 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)

3.22 Standards issued but not yet effective (continued)

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

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

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 revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

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

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest.

comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Group is currently assessing the impact of the amendments.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND JUDGEMENTS

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

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

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

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

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

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

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

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

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

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

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.

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.

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

Employees' end-of-service benefits **(continued)**

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 19.

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

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

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

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

5. SEGMENT INFORMATION

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

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

5. SEGMENT INFORMATION (CONTINUED)

	Explosive	*Medicine and medical supplies*	*Production of ammonium nitrate*	*Head office*	*Eliminations /adjustments*	*Consolidated*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*
As at 31 December 2022						
Segment assets	**903,821**	**3,334,552**	**144,128**	**1,780,765**	**(1,526,104)**	**4,637,162**
Segment liabilities	**694,919**	**2,470,567**	**126,496**	**118,883**	**(441,562)**	**2,969,303**
As at 31 December 2021						
Segment assets	846,253	3,308,937	155,327	1,765,504	(1,468,086)	4,607,935
Segment liabilities	687,317	2,460,900	126,052	147,872	(439,454)	2,982,687

	Explosive	*Medicine and medical supplies*	*Production of ammonium nitrate*	*Head office*	*Eliminations /adjustments*	*Consolidated*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*
31 December 2022						
Revenues						
External revenues	**324,178**	**3,360,887**	**10,803**	**-**	**-**	**3,695,868**
Intersegment revenue	**-**	**86,815**	**66,828**	**-**	**(153,643)**	**-**
	324,178	**3,447,702**	**77,631**		**(153,643)**	**3,695,868**
31 December 2022						
Cost of revenues	**(179,940)**	**(3,104,314)**	**(67,872)**	**-**	**143,913**	**(3,208,213)**
Amortization	**-**	**(2,060)**	**-**	**(44)**	**-**	**(2,104)**
Depreciation	**(8,608)**	**(24,073)**	**(4,936)**	**(1,615)**	**-**	**(39,232)**
Depreciation of right-of-use assets	**(1,093)**	**(2,608)**	**-**	**-**	**-**	**(3,701)**
Impairment of trade receivables	**(15,679)**	**(32,618)**	**-**	**-**	**-**	**(48,297)**
Other operating expenses and other income	**(68,891)**	**(221,491)**	**(4,538)**	**86,068**	**(100,272)**	**(309,124)**
Segment comprehensive income	**49,967**	**60,538**	**285**	**84,409**	**(110,002)**	**85,197**

	Explosive	*Medicine and medical supplies*	*Production of ammonium nitrate*	*Head office*	*Eliminations /adjustments*	*Total*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*
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 revenues	(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

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

	Land SR '000	*Buildings and Infrastructure Costs SR '000*	*Leasehold Improvements SR '000*	*Machinery and Equipment SR '000*	*Furniture, Fixtures and Tools SR '000*	*Vehicles and Transportation Equipment SR '000*	*2022 Total SR '000*	*Capital Work in Progress SR '000*
Cost:								
As at 1 January 2022	30,973	452,541	52,531	301,385	25,877	71,103	934,410	608,293
Additions	-	-	133	3,478	2,402	1,567	7,580	124,342
Disposals	-	-	(194)	(388)	(7)	(487)	(1,076)	
Transfers		620		936			1556	(1,556)
As at 31 December 2022	30,973	453,161	52,470	305,411	28,272	72,183	942,470	731,079
Accumulated depreciation:								
As at 1 January 2022	-	194,005	21,291	176,339	20,826	62,452	474,913	-
Charge for the year	-	10,293	2,550	20,280	1,214	4,895	39,232	-
Disposals	-	-	(38)	(292)	(7)	(411)	(748)	-
As at 31 December 2022	-	204,298	23,803	196,327	22,033	66,936	513,397	-
Net book value:								
As at 31 December 2022	30,973	248,863	28,667	109,084	6,239	5,247	429,073	731,079

The finance costs included in the qualified assets' costs during the year ended 31 December 2022 amounted to SR 12,1 million (31 December 2021: SR 5,4 million).

Capital work-in-progress as at 31 December 2022 mainly represent the costs incurred in constructing the Group's pharmaceutical Plant in Hail Industrial City, and a new Explosives Plant in Riyadh. In addition to other projects carried out in compliance with Security Regulations.

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

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

	Land SR '000	*Buildings and Infrastructure Costs SR '000*	*Leasehold Improvements SR '000*	*Machinery and Equipment SR '000*	*Furniture, Fixtures and Tools SR '000*	*Vehicles and Transportation Equipment SR '000*	*2021 Total SR '000*	*Capital Work in Progress SR '000*
Cost:								
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	197,920
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	608,293
Accumulated depreciation:								
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	-
Net book value:								
As at 31 December 2021	30,973	258,536	31,240	125,046	5,051	8,651	459,497	608,293

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

	2022 SR '000	*2021 SR '000*
Cost of Revenue	**29,047**	28,224
Selling and distribution expenses (note 24)	**7,110**	9,154
General and administrative expenses (note 25)	**3,075**	3,633
	39,232	41,011

7. INTANGIBLE ASSETS AND GOODWILL

2022	New Brand Key Money SR'000	Computer Software SR'000	Goodwill SR'000	Other intangible assets*	Total SR'000
Cost					
As at 1 January 2022	**12,500**	**21,026**	**469,807**	**-**	**503,333**
Additions	**-**	**1,429**	**-**	**138,820**	**140,249**
As at 31 December 2022	**12,500**	**22,455**	**469,807**	**138,820**	**643,582**
Amortization and impairment					
As at 1 January 2022	**8,000**	**19,260**	**-**	**-**	**27,260**
Amortization	**1,500**	**604**	**-**	**-**	**2,104**
As at 31 December 2022	**9,500**	**19,864**	**-**	**-**	**29,364**
Net Book Value					
As at 31 December 2022	**3,000**	**2,591**	**469,807**	**138,820**	**614,218**

* Additions to other intangible assets represent the acquisition of rights of manufacturing, marketing, and distribution of one medicine in Saudi Arabia. The subsidiary - AJA Pharmaceutical Industries Company (AJA Pharma) will be the manufacturer and supplier in KSA market. Manufacturing will commence after obtaining the necessary approvals from the competent authorities and expected during the second quarter of the next fiscal year.

2021	New Brand Key Money SR'000	Computer Software SR'000	Goodwill SR'000	Other intangible assets*	Total SR'000
Cost					
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
Amortization and impairment					
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

Goodwill arose from the acquisition of SITCO Pharma in 2001. For impairment testing, goodwill acquired through business combinations is allocated to the business CGUs. As at 31 December 2022, the goodwill amounted to SR 469.8 million (2021: SR 469.8 million). The Weighted Average Cost of Capital ("WACC") rate applied is 10.40% (31 December 2021: 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% (2021: 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% (2021: 2.0%).

Based on the analysis, an increase of 100 basis points in the discount rate would result in a decrease in the VIU by 17%, while a decrease in 100 basis points in the discount rate would result in an increase of 27%. An increase in the terminal growth rate by 100 basis points would result in an increase of 8% in the value in use, while a decrease of 100 basis points in the rate would result in a decrease in the VIU by 7%. With respect to the assessment of the value in use, management believes that 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 2022 and 2021 respectively.

8. RIGHT-OF-USE ASSETS

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

	Parcels of Land SR'000	*Warehouses and offices SR'000*	*Total SR'000*
Cost			
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
Accumulated Depreciation			
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

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

	2022 SR '000	*2021 SR '000*
Cost of Revenue	**1,500**	1,060
Selling and distribution expenses (note 24)	**14**	162
General and administrative expenses (note 25)	**2,187**	1,150
	3,701	2,372

9. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments designated at fair value through consolidated statement of comprehensive income represent a portfolio of floating rate loans whose risks are economically hedged through profit rate swaps. The maturity date is May 2027 with a three-month variable interest rate and SAIBOR. Derivatives do not meet the criteria for hedge accounting. The nominal value of the contracts as at 31 December 2022 amounted to SR 800 million (31 December 2021: Nil), and the fair value of the derivatives amounted to SR 4.1 million (31 December 2021: Nil). The change in the fair value of derivatives represents a gain of SR 4.1 million for the year ending 31 December 2022 (31 December 2021: Nil).

10. INVENTORIES

	2022 **SR '000**	2021 SR '000
Finished goods (Pharmaceuticals)	**1,065,952**	1,157,654
Finished goods (explosives)	**32,096**	16,948
Raw materials (ammonium nitrate and other chemicals)	**31,027**	19,681
Spare parts	**7,171**	4,198
Packaging material	**4,200**	4,713
	1,140,446	1,203,194
Less: provision for inventory	**(32,454)**	(44,934)
	1,107,992	1,158,260

Movement in provision for inventory is as follows:

	2022 **SR '000**	2021 SR '000
As at 1 January	**44,934**	24,265
Provided during the year	**27,040**	25,768
Write offs	**(39,520)**	(5,099)
As at 31 December	**32,454**	44,934

11. TRADE RECEIVABLES

	2022 **SR '000**	2021 SR '000
Trade receivables	**1,722,120**	1,775,865
Less: Impairment on trade receivables	**(208,639)**	(160,845)
	1,513,481	1,615,020

Trade receivables from Saudi government institutions represented : 60% of the total trade receivables as on 31 December 2022 (31 December 2021: 60% of the total trade receivable). These institutions have a strong credit rating in the Saudi market.

The Group recognized an allowance for expected credit losses for trade receivables for the year ended 31 December 2022 in the amount of SR 48.2 million (31 December 2021: SR 28.5 million).

11. TRADE RECEIVABLES (CONTINUED)

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

	2022 **SR '000**	2021 SR '000
As at 1 January	**160,845**	132,480
Provided during the year	**48,297**	28,454
Write offs	**(503)**	(89)
As at 31 December	**208,639**	160,845

12. PREPAYMENTS AND OTHER CURRENT ASSETS

	2022 **SR '000**	2021 SR '000
Advances to suppliers	**90,795**	136,420
Tax authority receivable – Egypt	**13,283**	26,141
Prepaid expenses	**5,448**	3,769
Deferred registration and licensing fees	**7,643**	3,708
Value added tax receivable	**2,737**	3,686
Advances to employees	**1,127**	1,103
Insurance with others	**313**	320
Letter of guarantee	**8**	12
Other	**1,297**	1,922
	122,651	177,081

13. CASH AND CASH EQUIVALENTS

	2022 **SR '000**	2021 SR '000
Cash at bank	**90,371**	100,395
Cash on hand	**844**	799
	91,215	101,194

14. SHARE CAPITAL

The Group's authorized, issued and paid-up share capital comprise 84,320,000 shares (31 December 2021: 84,320,000 shares) of SR 10 each amounting to SR 843,200,000 (31 December 2021: SR 843,200,000).

15. STATUTORY RESERVE

As per the Company's By-laws, the Company must set aside 10% of net income for the year to the statutory reserve till it equals 30% of the share capital; however, the general assembly during 2017 resolved to continue in setting aside 10% of net income for the year till the reserve equals 50% of the share capital. This statutory reserve is not available for distribution to the Group's shareholder.

16. GENERAL RESERVE

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

17. LOANS AND BORROWINGS

17.1 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 2022 (31 December 2021: 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 2022 (31 December 2021: SR 229 million).

During the year of 2021, 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 as of the year ended 31 December 2021. 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 2022, the unamortized balance amounted to SR 19 million (31 December 2021: SR 22.1 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).

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:

	2022 ***SR '000***	*2021* *SR '000*
Loans from Saudi Industrial Development Fund	**378,500**	386,500
Less: Unamortized processing fees	**(16,619)**	(20,409)
Present value adjustment	**(3,016)**	(3,673)
	358,865	362,418
Current	**24,751**	5,048
Non-Current	**334,114**	357,370
	358,865	362,418

17. LOANS AND BORROWINGS (CONTINUED)

17.1 Saudi Industrial Development Fund's Financing (continued)

Movements in unamortized transaction costs are as follows:

	2022 **SR '000**	2021 SR '000
As at 1 January	**20,409**	21,201
Additional transaction cost	**-**	3,660
Amortized during the year	**(3,790)**	(4,452)
As at 31 December	**16,619**	20,409

17.2 Short-Term Islamic Loans

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

17.3 Long-Term Islamic Loans

During June 2022, The Group obtained a long-term Islamic financing from one of the local banks at an amount of SR 300 million to finance the construction of the subsidiary's plant. This loan is subject to interest rate as per SAIBOR plus a margin profit. The term of this financing is six years and is repaid on quarterly installments after a two-year grace period.

Also, during June 2022, the group obtained long-term Islamic financing from a local bank in the amount of SR 140 million to finance its acquisition of a pharmaceutical product. This loan is subject to interest rate as per SIBOR plus a margin profit, The loan will be repaid in 8 semi-annual installments, with the last installment due in September 2027, after a grace period of one year.

18. LEASE LIABILITIES

	2022 **SR '000**	2021 SR '000
As at 1 January	**10,622**	10,335
Additions	**10,330**	3,388
Accretion of interest	**316**	358
Payments	**(3,055)**	(3,459)
As at 31 December	**18,213**	10,622
Current	**4,459**	2,764
Non-Current	**13,754**	7,858
	18,213	10,622

The maturity analysis of lease liabilities is disclosed in Note 30.

The following are the amounts recognised in profit or loss:

	2022 **SR '000**	2021 SR '000
Expense relating to short-term leases	**2,461**	2,974
Depreciation expense of right-of-use assets	**3,701**	2,372
Interest expense on lease liabilities	**315**	426
	6,477	5,772

19. EMPLOYEES DEFINED BENEFIT LIABILITIES

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

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

	2022 **SR '000**	2021 SR '000
As at 1 January	**59,403**	63,769
Service cost	**8,662**	8,250
Interest cost	**1,279**	1,225
Re-measurement of defined benefit liability	**(4,210)**	(2,036)
Benefits paid	**(8,602)**	(11,805)
As at 31 December	**56,532**	59,403

19.2 Employees' Benefit Expense

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

	2022 **SR '000**	2021 SR '000
Service cost	**8,662**	8,250
Interest cost	**1,279**	1,225
	9,941	9,475

19.3 Principal Actuarial Assumptions

	2022 **SR '000**	2021 SR '000
Discount rate	**4.10% - 4.25%**	2.11%-2.75%
Salary increase rate	**3.00% - 5.7%**	2.00%-2.94%

19.4 Maturity Profile of Employees' Defined Obligation

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

	2022 **SR '000**	2021 SR '000
One year or less	**12,886**	12,975
Above one year but less than five years	**40,669**	20,008
Above five years	**44,244**	35,999
	97,799	68,982

19. EMPLOYEES DEFINED BENEFIT LIABILITIES (CONTINUED)

19.5 Employees' Defined Benefit Obligation Sensitivity Analysis

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

31 December 2022	***Change in assumption***		***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**	**56,532**	**53,478**	**59,958**
Salary growth rate	**100 basis points**	**56,532**	**60,243**	**53,167**

31 December 2021	*Change in assumption*		*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

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 2022 and 31 December 2021. 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 2022 is 4.38 – 7.89 years (31 December 2021: 5.13-8.85 years).

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

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

20. 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.

20.1 Compensation and benefits of key executives

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

	2022 ***SR '000***	*2021* *SR '000*
Expenses and remuneration of the Board of Directors (Note 25)	**3,019**	3,625
Short-term benefits and remuneration	**14,435**	10,716
Post-employment benefits	**389**	460

20. RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

20.2 BALANCES OF RELATED PARTIES

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

Name of related party	*Relationship*	*The nature of the transaction*	*Transaction amount* **2022 SR '000**	*Transaction amount* *2021 SR '000*	*Balance as at* **2022 SR '000**	*Balance as at* *2021 SR '000*
Amounts due from related parties:						
Supply Chain for Logistic Services	*Joint venture*	*Payments and expenses on behalf*	***3,668***	-	-	-
		Capital paid	***250***	-	***3,668***	-
Amounts due to related parties:						
Hellmann Worldwide Logistics	*Partner in a joint venture*	*Affiliate services*	***13,313***	-	***13,313***	-

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

The Group's share in the joint venture is accounted for under equity method. The joint venture has not commenced its activities yet.

21. ACCRUED EXPENSES AND OTHER PAYABLES

	2022 SR '000	*2021 SR '000*
Accrued employee benefits	**40,302**	35,147
Accrued expenses	**24,680**	19,885
Provision for lawsuits	**14,506**	15,506
Provision for sales returns	**14,293**	5,500
Store management expenses	**13,313**	-
Provision for sale discount	**9,838**	18,752
Advances for customers	**9,825**	8,466
Accrued bord of director remunerations	**4,241**	3,721
Other liabilities	**13,654**	5,828
	144,652	112,805

22. ZAKAT AND INCOME TAX

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

	2022 SR'000	*2021 SR'000*
As at 1 January 2022	**46,229**	34,207
Charged during the year	**33,180**	36,374
Paid during the year	**(22,212)**	(24,352)
As at 31 December 2022	**57,197**	46,229

22. ZAKAT AND INCOME TAX (CONTINUED)

22.2 Zakat Status

Zakat and income tax provisions of SR 33.1 million were recognized by the Group during the year ended 31 December 2022 (31 December 2021: SR 36.4 million). The Company, SITCO Pharma, CCCIL, AJA Pharma and SCCL have filed their zakat declarations and obtained zakat certificates for the years up to 2019.

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

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 25 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 2021. During the year ended 31 December 2019, the Company obtained the final zakat assessments for years up to 2017 from the ZATCA.

22.3 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 2022 amounted to SR 204,3 thousand (31 December 2021: SR 63 thousand). Income tax payment has been deferred for the period until the final tax returns are submitted.

23. REVENUE

	2022 ***SR '000***	*2021* *SR '000*
Sale of goods	**3,665,967**	3,391,301
Rendering of services	**29,901**	19,679
	3,695,868	3,410,980

	2022 **SR '000**	*2021* *SR '000*
Government	**1,525,861**	1,645,113
Non-government	**2,170,007**	1,765,867
	3,695,868	3,410,980

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

24. SELLING AND DISTRIBUTION EXPENSES

	2022 SR '000	2021 SR '000
Employee Costs	**85,647**	93,014
Freight and transportation	**25,636**	24,005
Store management expenses (Note 20.2)	**13,313**	-
Depreciation	**7,110**	9,154
Insurance	**6,443**	6,677
Utilities	**3,844**	3,631
Rent	**3,515**	2,974
Advertising and promotional activities	**2,487**	1,538
Commission and incentive	**2,198**	1,189
Registration and subscription Fees	**1,803**	2,094
Travel and accommodation	**1,589**	1,624
Amortization of intangible assets	**1,500**	1,500
Exhibitions and conferences	**1,054**	270
Samples	**478**	275
Repair and maintenance	**452**	230
Professional and legal fees	**-**	196
Office supplies and stationery	**35**	26
Depreciation of right of use assets	**14**	162
Others	**2,365**	5,540
	159,483	154,099

25. GENERAL AND ADMINISTRATIVE EXPENSES

	2022 SR '000	2021 SR '000
Employee cost	**63,578**	66,709
Professional and legal fees	**7,430**	7,764
Registration and subscription fees	**5,842**	7,511
Utilities	**4,242**	3,860
Depreciation	**3,075**	3,633
Board of directors' remunerations	**3,019**	3,625
Depreciation of right of use assets	**2,187**	1,150
Insurance	**1,576**	113
Trips and accommodation	**1,306**	1,044
Repairs and maintenance	**710**	571
Amortization of intangible assets	**604**	883
Stationery and office supplies	**453**	217
Provision against legal claims	**-**	1,083
Others	**8,443**	9,586
	102,465	107,749

26. FINANCE COSTS

	2022 **SR '000**	2021 SR '000
Short-term Islamic loans (Note 17.2)	**49,787**	40,462
SIDF financing (Note 17.1)	**4,447**	4,452
Long term financing (Note 17.3)	**13,183**	-
Employees' defined benefit liabilities (Note 19)	**1,175**	1,094
financing costs on derivatives (Note 9)	**1,128**	-
Lease liabilities (Note 18)	**420**	426
	70,140	46,434
Less: Finance costs included in the costs of qualifying assets (Note17.1)	**(12,113)**	(5,394)
	58,027	41,040

27. OTHER INCOME, NET

Other income during the year ended 31 December 2022 included SR 1.6 million reimbursement of a penalty, and SR 0.3 million gain from training courses, in addition to other expenses amounted SR 0.31 million. While other gain for the year ended 31 December 2021, included an amount of SR 4 million as a reimbursement for a penalty and 3.7 million riyals as gains from adjusting the present value of financing for the Saudi Industrial Development Fund (Note 17.1), in addition to other expenses in the amount of SR 1.4 million.

28. 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:

	2022 **SR '000**	2021 SR '000
Income for the year attributable to equity holders of the parent	**80,223**	69,570

	2022 **SR**	2021 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	**0.95**	0.83

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices in level (1) which are observable for assets and liabilities, directly (such as prices) or indirectly (such as derived prices).
Level 3: Inputs for assets or liabilities, not based on observable market data (unobservable inputs).

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

	Fair value measured as per hierarchy	**31 December 2022 SR'000**		31 December 2021 SR'000	
		Carrying amount	**Fair value**	Carrying amount	Fair value
Derivative financial instruments	Level 2	**4,198**	**4,198**	–	–

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

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

30. 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:

30.1 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.

30.2 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.

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

30.2 Interest risk (continued)

Interest rate sensitivity

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

31 December 2022	***Change Change in rate***	***Impact on profit before zakat and income tax***	
		Increase in SR '000	***Decrease SR'000***
Variable rate financial instruments	**100 basis points**	**(11,309)**	**11,309**

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

30.3 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.

30.4 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:

	2022 SR '000	*2021 SR '000*
Trade receivables	**1,513,481**	1,615,020
Cash at banks	**90,371**	100,395
	1,603,852	1,715,415

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.

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

30.4 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 2022			**Past due**			
Government receivables	***Total SR '000***	***Not past due SR '000***	***< 90 days SR '000***	***91 – 180 days SR '000***	***181 – 360 days SR '000***	***> 360 days SR '000***
Expected credit loss rate		**0.06%**	**0.56%**	**0.82%**	**1.30%**	**16.46%**
The carrying value of trade receivables	**1,065,586**	**609,864**	**45,084**	**48,682**	**124,453**	**237,503**
Expected credit loss	**41,727**	**367**	**253**	**401**	**1,618**	**39,088**

31 December 2022			**Past due**			
Private sector receivables	***Total SR '000***	***Not past due SR '000***	***< 90 days SR '000***	***91 – 180 days SR '000***	***181 – 360 days SR '000***	***> 360 days SR '000***
Expected credit loss rate		**0.07%**	**0,92%**	**2.87%**	**18.15%**	**68.67%**
The carrying value of trade receivables	**656,534**	**369,624**	**33,477**	**6,794**	**6,412**	**240,227**
Expected credit loss	**166,912**	**276**	**307**	**195**	**1,164**	**164,970**

31 December 2021			Past due			
Government receivables	*Total SR '000*	*Not past due SR '000*	*< 90 days SR '000*	*91 – 180 days SR '000*	*181 – 360 days SR '000*	*> 360 days SR '000*
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			Past due			
Private sector receivables	*Total SR '000*	*Not past due SR '000*	*< 90 days SR '000*	*91 – 180 days SR '000*	*181 – 360 days SR '000*	*> 360 days SR '000*
Expected credit loss rate		0.14%	1.24%	3.00%	6.93%	59.26%
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

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.

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

30.5 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.

	On demand	*Within one year*	*One to five years*	*More than five years*	*Total*
As at 31 December 2022	***SR '000***	***SR '000***	***SR '000***	***SR '000***	***SR '000***
Lease liabilities	-	**4,581**	**8,713**	**7,127**	**20,421**
SIDF financing	-	**29,000**	**219,000**	**130,500**	**378,500**
Short-term Islamic loans	-	**689,961**	-	-	**689,961**
Long-term Islamic loans	-	**35,000**	**369,706**	**35,294**	**440,000**
Trade payables	**1,148,417**	-	-	-	**1,148,417**
Accrued expenses and other liabilities	**144,652**	-	-	-	**144,652**
Dividends payable	**13,308**	**42,158**	-	-	**55,466**
	1,306,377	**800,700**	**597,419**	**172,921**	**2,877,417**

As at 31 December 2021	*On demand*	*Within one year*	*One to five years*	*More than five years*	*Total*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Lease liabilities	-	3,167	6,427	2,471	12,065
SIDF financing	-	8,000	166,000	212,500	386,500
Short-term loans	-	1,534,425	-	-	1,534,425
Trade payables	801,317	-	-	-	801,317
Accrued expenses and other liabilities	112,805	-	-	-	112,805
Dividends payable	13,308	42,160	-	-	55,468
	927,430	1,587,752	172,427	214,971	2,902,580

31. CAPITAL MANAGEMENT

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

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

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 31 December 2021.

32. CONTINGENT LIABILITIES AND COMMITMENTS

32.1 Contingent liabilities

As at December 31, 2022, the Group had outstanding letters of guarantee amounting to SR 377.6 million (31 December 2021: SR 243.5 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.

32.2 Commercial and capital commitments

As at December 31, 2022, the Group has outstanding letters of credit amounting to SR 37.7 million (31 December 2021: SR 158.3 million), and capital commitments outstanding as at 31 December 2022 in respect of capital work in progress projects of SR 117.8 million (31 December 2021: SR 151 million).

33. DIVIDENDS

the Company's Ordinary General Assembly In its meeting held on 10 Shawwal 1443H (corresponding to 11 May 2022), authorized the Board of Directors to distribute interim profits on a quarterly or semi-annual basis for the fiscal year 2022. It was also approved to pay the Board of Directors' remuneration for the fiscal year ending in 31 December 2021 in the amount of SR 2,020,800.

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

The Ordinary General Assembly, in its meeting held on 14 Shawwal 1442H (corresponding to 26 May 2021), approved the distribution of cash dividends in the amount of SR 42,160,000 for the year ending on 31 December 2020. The Ordinary General Assembly of the company also authorized the Board of Directors to distribute interim profits on a quarterly basis or semi-annually for fiscal year 2021.

The Board of Directors, in its meeting held on 18 Jumada Al Awal 1442H (corresponding to 22 December 2021) approved the distribution of interim cash profits of SR 42,160,000 for the period ending on 30 September 2021.

34. 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.

35. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been approved by the Board of Directors of the Group on 27 Shaban 1444H (corresponding to 19 March 2023).