

NATIONAL ENVIRONMENTAL RECYCLING COMPANY

(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 2022 AND
INDEPENDENT AUDITOR'S REPORT**

NATIONAL ENVIRONMENTAL RECYCLING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31,
2022 AND INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report**To the Shareholders,****National Environmental Recycling Company**

(A Saudi Joint Stock Company)

Riyadh, Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements**Opinion**

We have audited the consolidated financial statements of National Environmental Recycling Company (the "Company") and its subsidiary (collectively, the "Group"), which comprise the consolidated statement of financial position as at December 31, 2022 and the consolidated statement of profit or loss and other 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 financial position of the Group as at December 31, 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 issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report (Continued)

To the Shareholders,

National Environmental Recycling Company

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><u>Revenue recognition</u></p> <p>As disclosed in the consolidated financial statements, revenues for the year ended December 31, 2022, were SAR 404.6 million (2021: SAR 153.6 million). We have identified revenues as a key audit matter because revenues are one of the group performance indicators and its susceptibility to the inherent risk of recognizing revenues higher than its actual amount to meet targets or expectations.</p> <p>Please refer to note (2-26) on a summary of significant accounting policies for revenue recognition and note (18) on related disclosures.</p>	<p>We have performed the following procedure relating to revenue recognition:</p> <ul style="list-style-type: none"> - Assessed the appropriateness of the Group's revenue recognition policy considering the requirements of the relevant International Accounting Standards. - Evaluate key contractual arrangements by referring to relevant documents and agreements with customers. - Assessed the design and implementation of the Group's controls and test their effectiveness over the revenue recognition process in accordance with the Group's policy. - Tested the supporting documents for a sample of the revenue transactions. - Performed analytical procedures by comparing expectation of revenue for a sample of customers with actual revenue. - Performed cut off procedures to ensure that the revenue is recorded in the correct period. - Assessed the adequacy of the disclosures in the consolidated financial statements as per the relevant International Financial Reporting Standards.

Other matter

The Group's consolidated financial statements for the year ended December 31, 2021 have been audited by another auditor who expressed an unmodified opinion on Thul -Hijjah 28, 1443H (corresponding to July 27, 2022G).

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 financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. It is expected that the annual report will be available after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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 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. If we find a material misstatement in this other information, based on the work we have done, we are required to report the matter to those charged with governance.

Independent Auditor's Report (Continued)

To the Shareholders,

National Environmental Recycling Company

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

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

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

Those charged with governance, the Board of Directors, 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 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 judgement and maintain professional skepticism throughout the audit. We are 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report (Continued)**To the Shareholders,****National Environmental Recycling Company****Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)**

- 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's audit. We remain solely responsible for our audit opinion.

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

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

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

Baker Tilly MKM & Co.
Certified Public Accountants



Majed Moneer Al Nemer
(Certified Accountant: License No. 381)
Riyadh on Ramadan 07, 1444 H
Corresponding to March 29, 2023



NATIONAL ENVIRONMENTAL RECYCLING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022
(Saudi Riyals)

	Notes	December 31, 2022	December 31, 2021 (Restated - Note 27)	January 1, 2021 (Restated - Note 27)
ASSETS				
Non-current assets				
Property, plant and equipment	4	70,790,077	31,033,000	14,235,638
Right of use assets	5	11,488,506	3,430,282	1,946,237
Total non-current assets		82,278,583	34,463,282	16,181,875
Current assets				
Inventories	6	68,211,027	43,454,023	15,744,316
Trade receivables	7	38,748,977	32,958,040	10,741,707
Prepayments and other debit balances	8	23,415,581	17,892,871	6,346,423
Cash and cash equivalents	9	3,309,684	41,942,584	16,619,383
Total current assets		133,685,269	136,247,518	49,451,829
Total assets		215,963,852	170,710,800	65,633,704
EQUITY AND LIABILITIES				
EQUITY				
Share capital	10	58,080,000	58,080,000	40,000,000
Treasury shares	11	(5,000,000)	(5,000,000)	-
Statutory reserve	12	3,880,133	2,068,429	941,975
Share premium	13	67,838,889	67,838,889	-
Retained earnings		31,674,267	15,326,326	5,104,950
Total equity		156,473,289	138,313,644	46,046,925
LIABILITIES				
Non-current liabilities				
Long-term loans	14	4,099,458	5,838,870	7,085,665
Lease liabilities	5	8,048,567	1,993,363	1,355,289
Employees' end of service benefits	16	1,334,522	1,144,111	977,791
Total non-current liabilities		13,482,547	8,976,344	9,418,745
Current liabilities				
Long-term loans – Current	14	29,661,428	8,070,000	2,100,000
Lease liabilities – Current	5	3,117,705	1,418,145	492,164
Trade payables		6,910,608	6,719,029	2,683,868
Accrued expenses and other credit balances	15	3,628,848	5,553,444	3,932,173
Zakat provision	17	2,689,427	1,660,194	959,829
Total current liabilities		46,008,016	23,420,812	10,168,034
Total liabilities		59,490,563	32,397,156	19,586,779
Total equity and liabilities		215,963,852	170,710,800	65,633,704

Chairman of Board of Director

Eyad Abdulaziz Alnafei

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EYAD ALNAFEI
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Chief Executives Officer

Naseer Mohammed AlDueb

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NASEER ALDUEB
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Chief Financial Officer

Bharat Bhatnagar

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Bharat Bhatnagar
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
The accompanying notes form an integral part of these consolidated financial statements.

NATIONAL ENVIRONMENTAL RECYCLING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022
(Saudi Riyals)

	Notes	2022	2021 (Restated - Note 27)
Revenues	18	404,614,717	153,602,924
Cost of revenues	19	<u>(371,961,337)</u>	<u>(134,870,645)</u>
Gross profit		32,653,380	18,732,279
General and administrative expenses	20	(9,611,621)	(7,989,169)
Provision for expected credit losses	7	<u>(891,195)</u>	<u>(59,609)</u>
Operating profit		<u>22,150,564</u>	<u>10,683,501</u>
Profit from the acquisition		-	2,350,286
Other (loss)/income	21	(339,894)	135,748
Finance cost	22	<u>(924,897)</u>	<u>(213,574)</u>
Profit before zakat		<u>20,885,773</u>	<u>12,955,961</u>
Zakat	17	<u>(2,768,736)</u>	<u>(1,691,416)</u>
Net profit for the year		<u>18,117,037</u>	<u>11,264,545</u>
Other Comprehensive Income			
<i>Items that will not be reclassified to profit or loss in subsequent periods</i>			
Re-measurement of employees' end of service benefits	16	42,608	83,285
Total comprehensive income		<u>18,159,645</u>	<u>11,347,830</u>
Basic and diluted earnings per share attributable to the shareholders of the parent Company			
	23	<u>3.41</u>	<u>2.58</u>


Chairman of Board of Director

Eyad Abdulaziz Alnafei

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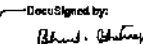
Chief Executives Officer

Naseer Mohammed AlDueb

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Chief Financial Officer

Bharat Bhatnagar

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The accompanying notes form an integral part of these consolidated financial statements.

NATIONAL ENVIRONMENTAL RECYCLING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022
(Saudi Riyals)

	Share capital	Treasury shares	Statutory reserve	Share premium	Retained earnings	Total
Balance as at January 1, 2021, Adjustments (note 27)	40,000,000	-	941,975	-	5,528,545	46,470,520
Balance as at January 1, 2021 (restated)	40,000,000	-	941,975	-	(423,595)	(423,595)
					5,104,950	46,046,925
Net profit for the year (restated)	-	-	-	-	11,264,545	11,264,545
Other comprehensive income	-	-	-	-	83,285	83,285
Total comprehensive income	-	-	-	-	11,347,830	11,347,830
Transfer for capital increase (note 10)	5,000,000	-	-	-	(5,000,000)	-
Paid for capital increase (note 10)	13,080,000	-	-	-	-	13,080,000
Transferred to statutory reserve	-	-	1,126,454	-	(1,126,454)	-
Share premium	-	-	-	67,838,889	-	67,838,889
Treasury shares	-	(5,000,000)	-	-	5,000,000	-
Balance as at December 31, 2021 (restated)	58,080,000	(5,000,000)	2,068,429	67,838,889	15,326,326	138,313,644
Balance as on January 1, 2022 (restated)	58,080,000	(5,000,000)	2,068,429	67,838,889	15,326,326	138,313,644
Net profit for the year	-	-	-	-	18,117,037	18,117,037
Other comprehensive income	-	-	-	-	42,608	42,608
Total comprehensive income	-	-	-	-	18,159,645	18,159,645
Transferred to statutory reserve	-	-	1,811,704	-	(1,811,704)	-
Balance as at December 31, 2022	58,080,000	(5,000,000)	3,880,133	67,838,889	31,674,267	156,473,289

Chairman of Board of Director

Eyad Abdulaziz Alnafei

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EYADALNAFEI

Chief Executives Officer

Naseer Mohammed AlDueb

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EYADALNAFEI

Chief Financial Officer

Bharat Bhatnagar

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BHARATBHATNAGAR

The accompanying notes form an integral part of these consolidated financial statements.

NATIONAL ENVIRONMENTAL RECYCLING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(Saudi Riyals)

	2022	2021 (Restated - Note 27)
Cash flows from operating activities		
Profit before Zakat	20,885,773	12,955,961
Adjustments for:		
Depreciation of property, plant, and equipment	3,048,034	1,859,931
Depreciation of right of use assets	1,602,656	1,025,134
Provision for expected credit loss	891,195	59,609
Provision for slow-moving inventory	-	1,744,990
Loss from sale and lease back of property, plant, and equipment	1,768	-
Loss from sale of property, plant, and equipment	-	118,218
Gain from acquisition	-	(2,350,286)
Finance cost	924,898	213,574
Employees' end of service benefits	399,597	229,506
	<u>27,753,921</u>	<u>15,856,637</u>
Changes in working capital items:		
Trade receivables	(6,682,132)	(21,535,586)
Inventories	(24,757,004)	(29,344,196)
Prepayments and other debit balances	(5,522,710)	(11,151,132)
Trade payables	191,579	4,027,509
Accrued expenses and other credit balances	(1,924,596)	1,588,012
	<u>(10,940,942)</u>	<u>(40,558,756)</u>
Zakat paid	(1,739,503)	(991,051)
Employees' end of service benefits paid	(187,691)	(285,081)
Net cash flows used in operating activities	<u>(12,868,136)</u>	<u>(41,253,713)</u>
Cash flows from investing activities		
Additions to property, plant, and equipment	(53,067,461)	(17,795,720)
Proceeds from sale of property, plant, and equipment	8,611,298	-
Proceeds from acquisition	-	289,434
Net cash flows used in investing activities	<u>(44,456,163)</u>	<u>(17,506,286)</u>
Cash flows from financing activities		
Additions to loans	21,732,428	6,000,000
Loans paid	(1,880,412)	(1,248,964)
Lease liabilities paid	(1,160,617)	(1,005,550)
Paid for capital increase	-	13,080,000
Share premium	-	67,838,889
Net cash flows from financing activities	<u>18,691,399</u>	<u>84,664,375</u>
Net changes in cash and cash equivalents during the year	<u>(38,632,900)</u>	<u>25,323,201</u>
Cash and cash equivalents at the beginning of the year	<u>41,942,584</u>	<u>16,619,383</u>
Cash and cash equivalents at the end of the year	<u>3,309,684</u>	<u>41,942,584</u>
Non-cash items:		
Additions to right of use assets	10,284,463	-
Additions to lease liabilities	(9,462,138)	-
Transferred from work in progress	2,577,902	9,174,658
Transferred from retained earnings to increase capital	-	5,000,000
Additions to treasury shares against retained earnings	-	(5,000,000)

Chairman of Board of Director

Eyad Abdulaziz Alnafai

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Eyad Abdulaziz Alnafai

Chief Executives Officer

Naseer Mohammed AlDueb

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Naseer Mohammed AlDueb

Chief Financial Officer

Bharat Bhatnagar

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Bharat Bhatnagar

The accompanying notes form an integral part of these consolidated financial statements.

NATIONAL ENVIRONMENTAL RECYCLING COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

1. COMPANY INFORMATION AND PRINCIPAL ACTIVITIES

National Environment Recycling Company (hereinafter the “Company” or the “Parent Company”) is a Saudi Joint Stock company, established under the Commercial Register No. 1010465140 dated Jumada Al-thani 27, 1436 AH (corresponding to April 16, 2015) in Riyadh, Kingdom of Saudi Arabia.

The principal activities of the Company and its subsidiary (collectively referred to as the “Group”) are represented in the activities of integrated administrative services for offices, wholesale of waste, scrap and materials for recycling, including (collection, classification, detailing, stripping, storage, and delivery), retail sale of scrap construction materials, including (scrap iron trade).

The registered address of the Company is Riyadh, Al-Malqa District, 13524,3431, Kingdom of Saudi Arabia.

The Company has one branch as shown below:

<u>CR Number</u>	<u>Name</u>	<u>Issuance Location</u>	<u>Registration date</u>	<u>Activity</u>
1010432838	National Environmental Recycling Factory	Riyadh	29 Muharram 1438 AH	Producing copper, aluminum, iron blocks, plastic granules and metal-containing blocks

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2-1) Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the Employees’ end of service benefits – measured using the Project of Unit Credit Method as shown in the accounting policies.

2-2) Basis of consolidation

The consolidated financial statements include the financial statements of the company and the company controlled by the Group (its subsidiary).

In particular, the Group takes control of the investee company only when 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 powers over the investee company to influence its returns.

Business combination

The Group accounts for the business combination using the acquisition method when control is transferred to the Group.

Benefits transferred from an acquisition are generally measured at fair value. It is determined by the net asset value. Transferred benefits do not include amounts resulting from the settlement of relationships that existed prior to the merger, and these amounts are included in the consolidated statement of profit or loss and the consolidated statement of comprehensive income. Contingent liabilities are measured at fair value at the date of acquisition if they are classified as equity and any transactions are processed within equity. Subsequent changes in the fair value of potential benefits are recognized in the consolidated statement of profit or loss and the consolidated statement of other comprehensive income.

NATIONAL ENVIRONMENTAL RECYCLING COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2-2) Basis of consolidation (Continued)

The increase in the cost of acquisition and the amount of non-controlling interests, if any, resulting from the fair value of net acquired assets is identified as goodwill and shall be recorded in the consolidated statement of financial position. Any goodwill that arises is tested annually for impairment.

The Group conducts a reassessment to ascertain whether it exercises control over the investee company when facts and circumstances indicate a change in one or more of the above elements of control.

In general, there is an assumption that a majority of voting rights results in control. In support of this assumption, where the Group has less than a majority of voting rights or similar rights in the investee company, the Group shall take into account all relevant facts and circumstances when ascertaining whether it exercises control over the investee company, including:

- Contractual arrangement(s) with other voting rights holders in the investee company.
- Rights resulting from other contractual arrangements.
- Group-specific voting rights and potential voting rights.

Consolidation begins when control of the subsidiary is transferred to the group and stops when the group loses that control. The assets, liabilities, income and expenses of the acquired subsidiary during the year shall be included in the consolidated financial statements as of the date of transfer of control to the Group and until the Group ceases to exercise such control in the investee company. All assets, liabilities, equity, revenues, expenses and cash flows relating to transactions between Group companies are fully eliminated upon consolidation of the financial statements.

When needed, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those followed by the Group.

The financial statements for the year ended 31 December 2022 include the accounts of the Company and its subsidiary (collectively, the "Group"):

<u>Subsidiary Company</u>	<u>Legal entity</u>	<u>Country of Incorporation</u>	<u>Percentage of ownership as at</u>	
			<u>2022</u>	<u>2021</u>
Safe Information Modern Systems FZE	Limited liability	U.A. E	100%	100%

2-3) Functional and presentation currency

The consolidated financial statements are presented in Saudi Riyals (SR), which is the Group's functional currency, and all amounts are rounded to the nearest Saudi Riyal, unless otherwise stated.

2-4) Change in accounting policies and disclosures.

2-4-1 New and revised IFRSs applied with no material effect on the consolidated financial statements.

In the current year, the company has applied several amendments to the International Financial Reporting Standards issued by the International Accounting Standards Board, which are mandatory effective for an accounting period beginning on or after January 1, 2022. The application of these revised IFRSs has not had any material impact on the amounts reported in these consolidated financial statements.

- Amendments to IFRS 3 Business combination to update a reference to the conceptual framework.
- Amendments to IAS 16 Property, plant and equipment that prevent the company from deducting from the cost of property, plant and equipment amounts received from the sale of items produced during the preparation of the parent company for its intended use.
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets related to costs that must be included when assessing whether there are losing contracts.
- Annual enhancements to IFRS 2018-2020 Periodic amendments to IFRS 1 and 9 and 16 and IAS 41.

NATIONAL ENVIRONMENTAL RECYCLING COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2-4) Change in accounting policies and disclosures (continued)

2-4-2 New and revised IFRSs in issue but not yet effective and not adopted early.

The Company has not yet applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely
Amendments to IAS 1 <i>Presentation of Financial Statements</i> — Classification of liabilities	1 January 2024
Amendments to IFRS 16 <i>Leases</i> —Treatment of sale and leaseback transactions	1 January 2024
IFRS 17 <i>Insurance Contracts</i> establishes the principles of recognition, measurement, presentation, and disclosure of insurance contracts and replaces IFRS 4 <i>Insurance Contracts</i> .	1 January 2023
Disclosure of accounting policies (amendments to IAS 1 and Statement of Practice 2).	1 January 2023
Amendments to IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> —Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12 <i>Income Taxes</i> —Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements for the period of initial application. Adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Company in the period of initial application.

2-5) Classifying assets and liabilities into current or non-current

The Group presents assets and liabilities in the consolidated statement of financial position based on current / non-current classification.

Assets are current when they are:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle.
- Held primarily for the purpose of trading.
- Expected to be realized within twelve months after the date of consolidated statement of financial position; or
- Cash and cash equivalents unless restricted from being exchanged or used to settle any liabilities for at least twelve months after the date of consolidated statement of financial position.

All other assets are classified as "non-current".

All liabilities are determined to be current when:

- They are expected to be settled in the normal operating cycle.
- Are held primarily for the purpose of trading.
- Are due to be settled within twelve months after the date of consolidated statement of financial position; or
- There is no unconditional right to defer the settlement of the liabilities for at least twelve months after the date of consolidated statement of financial position.

All other liabilities are classified as "non-current".

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2-6) Property, plant, and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation, and any accumulated impairment loss. If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Similarly, when a major inspection is carried out, its cost is recognized in the book value of the property, plant and equipment as an alternative if the recognition criteria are met. All other repair and maintenance costs are recognized in the statement of profit or loss as incurred. Lands and capital work-in-progress are not depreciated. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision is met.

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

<u>Assets</u>	<u>Years</u>
Leasehold improvements	The useful life of the improvements or the lease period, whichever is shorter
Equipment	5 Years
Containers and prefabricated houses	10 Years
Computers & Printers	3 Years
Vehicles	5 Years
Furniture & fixtures	3-5 Years
Machines	7-15 Years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is calculated as the difference between the net disposal proceeds and the net book value of the asset and is included in profit or loss when the asset is derecognized.

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.

Capital work-in-progress are stated at cost less accumulated impairment losses, if any. capital work-in-progress are not depreciated until the asset under construction or development is ready for use for the purpose which it was created for or developed by management where the cost of the asset is transferred to its line item.

2-7) 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 Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (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 groups of assets (collectively known as a cash generating unit). 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 pre-tax 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 costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for other publicly traded companies or other available fair value indicators.

Impairment losses are recognized in the statement of profit or loss which such impairment arises and in the expense category consistent with the function of the impaired asset.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2-7) Impairment of non-financial assets (Continued)

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such an indication exists, the Company estimates the assets or CGU's recoverable amount. A previously recognized 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 recognized. The reversal is limited to the extent so as not to cause the carrying amount of the asset to exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the statement of profit or loss and other comprehensive income. Non-financial assets excluding goodwill that were previously impaired are reviewed for possible reversal of impairment at the end of each reporting period.

2-8) Foreign currency

Transactions in foreign currency are initially recorded at the functional currency prevailing rate at the date on which the transaction is qualified for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at the rate prevailing at the date of preparation of the consolidated financial statements. All differences arising from settlement or translation of monetary items are recognized in the profit or loss.

2-9) Translation of foreign transactions

Assets and liabilities in the financial statements of foreign subsidiaries are translated into Saudi Riyals using the prevailing exchange rates at the date of preparing the consolidated statement of financial position and the date of the consolidated statement of profit or loss, based on the average exchange rates for each year. Components of equity, other than retained earnings, are translated at the prices prevailing at the date of each occurrence. Adjustments resulting from the translation of foreign operations, if material, are recorded in the consolidated statement of comprehensive income as a separate component of equity. There was no significant impact resulting from the translation of foreign operations.

2-10) Financial instruments

Financial instruments are recognized when the Group becomes a party to the contractual provisions of the instrument. A financial instrument is any contract that results in a financial asset of an entity and a financial obligation or equity instrument of another entity.

a) Financial assets

The Group determines the classification of its financial assets upon initial recognition. The classification is based on the entity's business model for managing financial assets and the contractual terms of cash flows.

1) Classification

Financial assets are classified into the following measurement categories:

- a- those subsequently measured at fair value (either through other comprehensive income, or through profit or loss), or
- b- measured at amortized cost.

2) Measurement

At initial recognition, the Group measures financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss when incurred.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2-10) Financial instruments (Continued)

a) Financial assets (Continued)

Debt instrument

The subsequent measurement of debt instruments is based on the Group's asset management business model and the characteristics of the asset's cash flows. The Group classifies debt instruments at amortized cost based on the following:

- a- The asset is held within a business model in order to collect contractual cash flows, and
- b- The contractual terms give rise to specified cash flow dates that are only principal payments and commission on the outstanding principal amount.

Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Equity instrument

If the Group elects to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the profit or loss. Dividends on these investments are recognized in the profit or loss as other income when the Group is entitled to receive the payments. There are no impairment requirements for investments in equity instruments carried at fair value through other comprehensive income. Changes in the fair value of financial assets at fair value through profit or loss are recognized as other gain/(losses) in the profit or loss as applicable.

3) Derecognition

The Group derecognizes financial assets when the contractual cash flows from the asset expire or when they transfer the assets and the significant risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the associated assets and liabilities for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of the transferred financial asset, the Group continues to recognize the financial assets and records secured financing against the proceeds received.

4) Impairment of financial assets

The Group applies the expected credit loss model to measure and recognize the loss of exposure to credit risk and impairment in the value of financial assets that are debt instruments and are measured at amortized cost such as loans and trade receivables.

The expected credit loss is the weighted estimate of credit losses (i.e., the present value of all cash shortfalls) over the expected life of the financial asset. The cash shortfall is the difference between the cash flows due in accordance with the contract and the cash flows that the Group expects to receive. The expected credit loss model considers the amount and timing of payments and therefore credit losses arise even if the Group expects to receive payments in full but later than the contract due date. The expected credit loss method requires an assessment of the credit risk and default and the timing of collection since initial recognition. This requires recognition of ECL in the consolidated statement of profit or loss even for newly created or acquired receivables.

Impairment of financial assets is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risks since initial recognition. 12-month expected credit losses represent the expected credit losses resulting from default events that may be possible within 12 months after the financial reporting date. Expected credit losses represent the lifetime expected credit losses that result from all possible default events over the expected life of the financial asset.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2-10) Financial instruments (Continued)

a) Financial assets (Continued)

4) Impairment of financial assets (Continued)

Trade receivables have a short term, usually less than 12 months, so the allowance for impairment losses measured as lifetime ECLs are not different from 12 months ECLs. The Group uses the practical means of IFRS 9 to measure the expected credit losses of trade receivables using a provision matrix based on the aging of the receivables.

The Group uses credit loss rates that are derived from historical credit loss experiences and adjusts them to reflect information about current conditions and reasonable and verifiable expectations of future economic conditions. Credit loss rates vary according to the ages of the amounts that are past due, and they are usually higher for those amounts with the oldest ages.

b) Financial liabilities

The Group classifies its financial liabilities at initial recognition.

1) Classification

Financial liabilities are classified into the following measurement categories:

- a- Those that are subsequently measured at fair value through profit or loss, and
- b- Those that are subsequently measured at amortized cost.

2) Measurement

At initial recognition, the Group measures financial liabilities at its fair value less transaction's costs that are directly attributable to the issuance of the financial liability. Subsequent to initial recognition, financial liabilities not measured at fair value through profit or loss (like borrowings and accounts payable) are measured at amortized cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of the debt instrument and of allocating the commission provision over the relevant effective interest period. The effective interest rate is the discounts rate of the estimated future cash flows (including all fees and points paid or received that form an integral part of the effective interest rate, transaction's costs and other premiums or discounts) through the expected life of the debt instrument or a shorter period where appropriate, to net book value on initial recognition.

3) Derecognition of financial liabilities

Financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where 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 a derecognition of the original liability and the recognition of a new liability, the difference in respective carrying amounts is recognized in the profit and loss.

c) Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2-11) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks and time deposits, highly liquid (if any) with original maturities of three months or less from their purchase date.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2-12) Trade receivables

Trade receivables are measured at fair value on initial recognition and subsequently measured at amortized cost using the effective interest rate method, less allowance for expected credit losses. Changes in the allowance for expected credit losses are recognized in profit or loss. When the receivable is uncollectible, it is written off. When any amounts later recovered from the previously written off amounts, they are included in the profit or loss (refer to the accounting policy for financial assets above).

2-13) Inventories

Inventory is valued at cost price or net realizable value, whichever is lower. The cost of inventory is determined on the basis of the weighted average price method and includes the expenses incurred in acquiring inventory of finished stock and raw materials, costs of production or transfer and other costs incurred in bringing the inventory to the site in its current condition. The net realizable value is the estimated selling price in the normal activity of the Group after deducting the estimated costs to complete the sale. The inventory movement is reviewed at the end of the year and a provision for slow or expired inventories is made if necessary.

2-14) Share capital.

Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of an asset or a liability. The Company's ordinary shares are classified as equity instruments.

2-15) Statutory reserve

In accordance with the Company's Bylaws, the Group transfers 10% of its net profit for the year to the statutory reserve and until it reaches 30% of the share capital. This reserve is not available for distribution as dividends.

2-16) Treasury shares

Treasury shares are recorded at cost and shown as a deduction from equity after being adjusted for transaction costs, dividends and gains or losses on the sale of these shares. After purchase, these shares are recognized at an amount equal to the amount paid.

The company buys these shares after obtaining the approval of the General Assembly in order to discharge its obligations under the incentive programs for the payments paid on the basis of shares, and it also includes shares for the purpose of exchange for the acquisition of shares or shares or the purchase of assets.

2-17) Employees' Defined Benefits Obligations

Defined Benefit Programs:

Commitments in the statement of financial position relating to the employees' defined benefits program are measured at the present value of the expected future payments at the reporting date, using the Project Unit Credit Method, and are recorded as non-current liabilities. The defined benefits obligation is calculated at the end of each annual reporting period by an independent actuary using the Project Unit Credit Method. The actuarial valuation process takes into account the provisions of the Saudi Labor Law and the Company's policy. The present value of the defined benefits obligation is determined by discounting the estimated future cash outflows using the commission rates of high-quality corporates' bonds that are denominated in the currency in which the benefits will be paid, and that have terms that approximate to the related obligations (or, if not available, market rates on government bonds are used). The commission cost is calculated by applying the discount rate to the net balance of the defined benefits obligation and this cost is recognized in the profit or loss.

The cost of the defined benefit obligation is calculated using the actuarially determined retirement costs at the end of the previous financial year, after adjusting for significant market fluctuations and any significant one-time events such as program modification, workforce reduction and repayment. In the absence of significant market fluctuations and one-time events, the actuarial liability is extended based on the assumptions at the beginning of the year. If there are significant changes in assumptions or arrangements during the year, they must be considered to re-measure these obligations and the costs associated with them.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2-17) Employees' Defined Benefits Obligations (Continued)

Remeasurement gains and losses arising from adjustments and changes in actuarial assumptions in the year in which they occurred are recognized in other comprehensive income. Changes in the present value of the defined benefit obligation arising from plan modifications or workforce reductions are recognized directly in the profit or loss as past service costs.

short-term employee obligations

Liabilities related to benefits payable to employees, such as wages, salaries, annual and sick leave, and tickets, and which are expected to be paid during the twelve months after the end of the financial year in which the employees provide the related services, are recognized and measured in the financial statements at the undiscounted amounts expected to be paid when the obligations are settled.

2-18) Borrowings

Borrowings are initially recognized at fair value less transactions' costs directly attributable to the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the consolidated statement of financial position date, accordingly, liability is recognized at amortized cost using the effective interest rate method (refer to the accounting policy for financial liabilities above).

2-19) Trade payables and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

2-20) Provisions

Provisions are recognized when the Group has present obligations (legal or constructive) as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably. In cases where the Group expects to recover some or all of the provision, for example under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense related to the provision is presented in the profit and loss after deducting any recoveries.

If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate, which reflects the risks specific to the obligation, when appropriate. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

2-21) Leases

The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term and leases of low value assets as follows:

Right-of-use assets

The Group recognizes the right to use the assets on 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 impairment and depreciation losses and adjusted for any remeasurement of the lease liabilities. The cost of right-of-use assets includes the amount of lease commitments recognized, initial direct costs incurred, and lease payments made on 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 right to use the recognized assets is depreciated on a straight-line basis over the estimated useful life and the lease term, whichever is shorter. Right-of-use assets are subject to impairment.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2-21) Leases (Continued)

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of the lease payments to be made over the term of the lease. Lease payments consist of fixed payments (including embedded 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 the purchase option that the company is certain to exercise and the payment of lease termination penalties, if the lease term reflects that the company is exercising the option to terminate. Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

When calculating the present value of lease payments, the Group uses the incremental borrowing rate at the inception date of the lease if the interest rate implicit in the lease is not readily identifiable. After the inception date, the amount of the lease liabilities is increased; to reflect the interest accumulation and a reduction in the lease payments made. In addition, the carrying amount of the lease liabilities is remeasured if there is a modification, a change in the lease term, a change in guaranteed fixed lease payments or a change in the assessment to purchase the underlying asset.

Short term leases contracts

The Group applies the short-term leases recognition exemption to short-term leases of land and buildings (i.e., leases that have a term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expenses on a straight-line basis over the term of the lease.

Sale and leaseback transactions

A sale and leaseback transaction is where the Group (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor. The Group shall account for these transactions as follows:

The transfer of the asset is a sale

If the transfer of an asset by the seller-lessee satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognize only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

The transfer of the asset is not a sale

If the transfer of an asset by the seller-lessee does not satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset the seller-lessee shall continue to recognize the transferred asset and shall recognize a financial liability equal to the transfer proceeds. It shall account for the financial liability applying IFRS 9.

2-22) Expenses

Expenses consist of the cost of revenues, which consist of the cost of purchased materials and direct expenses that are related to the cost of revenue. All other expenses are classified as general and administrative expenses. An allocation of common expenses between cost of revenues, selling and marketing expenses and general and administrative expenses is made, when necessary, on a reasonable basis in accordance with the nature and function of those expenses.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2-23) Financing costs

Finance costs that are directly attributable to the acquisition, construction or production of a qualifying asset and which requires a substantial period of time to be ready for its intended use or sale, are capitalized as part of the cost of that underlying asset. All other finance costs are charged to expenses in the period in which they are incurred. Finance costs include commission and other costs that the Group incurs in connection with the borrowing.

2-24) Zakat and Income Tax

The Group provides a provision for zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). The provision is charged to the profit and loss.

The current taxes are calculated in accordance with the income tax law in accordance with the laws in force in the countries in which the companies are located.

2-25) Value Added Tax ("VAT")

Revenues, expenses and assets are recognized net of the value added tax except in the following cases:

- If the value added tax on a purchase of assets or services is not recoverable from the relevant tax authority, in this case, the value added tax is recognized as part of the cost of acquisition of the relevant assets or part of the expense item, as applicable.
- Trade receivables and payables are stated with the amount of value added tax.

The net amount of value added tax that can be recovered from or paid to the relevant tax authority is included as part of other debit or credit balances in the consolidated statement of financial position.

2-26) Revenue

Revenue from contracts with customers

The Group recognizes revenue from contracts with customers based on a five steps model as described in IFRS 15:

Step 1: Identify the contract(s) with a customer:

A contract is an agreement between two or more parties that creates enforceable rights and obligations and specifies the criteria that must be fulfilled.

Step 2: Identify performance obligations in the contract:

A performance commitment is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3: Determine the transaction's price:

The transaction price is the amount of consideration that the group expects to be entitled to in exchange for transferring the promised goods or services to a customer, except for the amounts collected on behalf of third parties.

Step 4: Allocate the transaction's price to the performance obligations in the contract:

For a contract that has more than one performance obligation, the Group allocates the transaction's price to each performance obligation in an amount that depicts the amount of consideration, which the Group expects to be entitled in exchange for satisfying each performance obligation.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2-26) Revenue (Continued)

Revenue from contracts with customers (Continued)

Step 5: Recognize revenue when the Group satisfies a performance obligation.

The Group satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- a. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.
- b. The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- c. The Group's performance of the obligation does not create an asset with an alternate use to the Group, and the Group has an enforceable right to payment for performance completed to date.

For performance obligations where none of the above conditions are met, revenue is recognized at the time the performance obligation is satisfied.

The Group recognizes revenue at the time the customer obtains control of the goods, and this is when the goods are accepted and delivered to the customer and when the Group satisfies the performance obligation. The Group takes into account the following indicators to assess the transfer of control of an asset pledged to be provided to the customer:

- The Group has the right to receive consideration for the asset;
- The customer has the legal right of the asset,
- The asset has been virtually transferred by the Group;
- The customer has all the risks and rewards related to ownership of the asset;
- The customer's acceptance of the asset.

All group revenues are recognized at a point in time.

Sales of goods

Revenue is recognized when the significant risks and rewards are transferred to the customer, and it is highly probable to recover the consideration, the related costs and the likelihood of returning the goods can be estimated reliably, and there is no longer any continuous interference from management in the matter of the goods, and the amount of revenue can be measured reliably. Revenue is measured in the net after deduct returns, rebates, and quantities discounts.

Sales are recognized when the goods are delivered to customers, it is stated net of any rebates or other discounts.

2-27) Dividends

Annual dividends are recorded in the consolidated financial statements in the period in which they are approved by the General Assembly of the shareholders.

2-28) Fair value measurement

Fair value is the price received for the sale of an asset or paid to settle an obligation in a regular transaction between market participants on the measurement date. The measurement of fair value is based on the assumption that transactions for the sale of the asset or the transfer of the liability occur either:

- In the main market for assets or liabilities or
- In the absence of the main market, in the most developed markets for assets or liabilities

The main market or the most developed market must be accessible by the group. The fair value of an asset or liability is measured using assumptions that market participants will use when pricing an asset or liability assuming that market participants represent their economic interest.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2-28) Fair value measurement (Continued)

Measuring the fair value of non-financial assets takes into account the ability of market participants to derive economic benefits by using the asset at its maximum and best use or by selling it to another market participant who uses the same asset for its maximum and best use.

The Group uses appropriate valuation methods under conditions where the necessary information is available to measure fair value, maximize the use of perceptible inputs and minimize the use of inputs that cannot be perceived.

All assets and liabilities whose fair value is measured or disclosed in the consolidated financial statements are classified within the fair value sequence. This is disclosed below, based on lower-level inputs which is important for measuring fair value as a whole:

Level I: Prices traded (without adjustment) in active markets for similar assets and liabilities can be obtained at the measurement date.

Level II: Valuation Methods have the lowest level of significant input to measure fair value can be perceived either directly (e.g. prices) or indirectly (derived from prices).

Level III: Valuation methods have the lowest level of significant input to measure fair value imperceptible (unobservable inputs).

For assets and liabilities recognized in the consolidated financial statements at fair value on a recurring basis, the Group determines whether a shift has occurred between levels in the hierarchy by revaluation of the classification (based on the lowest level of significant input to measure fair value as a whole) at the end of the reporting period. The Group defines policies and procedures for both recurring fair value measurement and non-recurring fair value measurement.

At the date of each report, the Group analyses changes in the values of assets and liabilities that must be remeasured or revalued in accordance with the Group's accounting policies. For this analysis, the group verifies the main inputs applied in the last evaluation by matching the information in calculating the evaluation with contracts and other relevant documents.

The group also compares the change in the fair value of each asset or liability with other external sources to determine whether the change is reasonable for the purposes of fair value disclosures, the Group has defined asset and liability classes based on the nature, characteristics and risk of the asset or liability and the level of the fair value hierarchy as described above.

2-29) Contingent liabilities

Obligations that are likely to arise from past events and their existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not within the Group's full control, or a current obligation that is not restricted because it is unlikely that a flow of resources will be needed to settle the obligation. In the event that the amount of the liability cannot be measured with sufficient reliability, it is not included in the contingent liabilities but is disclosed in the consolidated financial statements.

2-30) Segment reporting

An operating segment is a component of a company that engages in business activities and from which it can generate revenues and incur expenses and includes income and expenses related to transactions with any of the other components of the company. All operating results of the operating segments are reviewed by the Group's operational decision makers to make decisions on the resources to be allocated to the sector and evaluate their performance for which separate financial information is available.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions at the date of preparing the consolidated financial statements that may affect the amounts of revenues, expenses, assets and liabilities, the accompanying disclosures and the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustments to the carrying amounts of assets or liabilities that will be affected in future periods.

These estimates and assumptions are based on experience and other various factors that are believed to be reasonable in the circumstances and are used to measure the carrying amounts of assets and liabilities that are difficult to obtain from other sources. The underlying estimates and assumptions are reviewed on an ongoing basis. Revision on accounting estimates is recognized during the period in which the estimates are revised.

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 that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below. The Group based its assumptions and estimates on the data available when the consolidated financial statements were prepared. However, current conditions and assumptions about future developments may change due to market changes or circumstances arising beyond the Group's control. These changes are reflected in the assumptions when they occur.

A. Uncertain zakat positions

The Group's current zakat payable relates to the management's assessment of the amount of zakat payable on the open zakat positions, as the Group still has to wait for the review by the ZATCA for those zakat returns submitted and the agreement and acceptance of the final obligation amounts. Due to the uncertainty associated with these zakat items, it is possible that the final result will differ significantly when the final assessment is issued by the ZATCA in future periods. The status of the zakat assessments is disclosed in note 17.

B. Long-term assumptions of employees' defined benefits obligations

Employee' termination benefits represent obligations which will be paid in the future upon the termination of employment contracts. Management has to make assumptions about the variables like discount factor, salary increase rate, mortality rates and employees' turnover. The Company's management periodically takes advice from external actuarial experts on these assumptions. Changes in key assumptions could materially affect the provision for employees' termination benefits.

C. Determine the leases' term that include renewal and termination options

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

The Group has a number of lease contracts that contain extension or termination clauses. The Group applies judgments when assessing whether it is reasonably certain to exercise the option to renew or terminate a lease as it considers all relevant factors that would create an economic benefits to exercise the renewal or termination option. The Group reassesses the lease term if a significant event occurs that may affect its ability to exercise or not to exercise the option to renew or terminate the lease.

D. Provisions

Provisions, based on its, depend on estimates and evaluations as to whether the recognition criteria are met, including an estimate of the amounts likely to be settled. Provisions for notes are based on an estimate of likely costs to be incurred based on management's estimates and other available information. Provisions for uncertain obligations include management's best estimate of whether the cash outflows are probable.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)
Estimates and assumptions (Continued)

E. Provision for impairment of financial assets

Loss allowances for financial assets are based on assumptions about the risk of default and expected loss rates. The Group uses judgement in making these assumptions and determining the inputs to the impairment calculation, based on the Group's past history and existing market conditions, as well as forward looking estimates at the end of each reporting period.

F. Leases – Estimating the Default Borrowing Rate

The company cannot easily determine the implicit interest rate in the lease agreement, so it uses the additional borrowing rate to measure rental obligations. The incremental borrowing rate is the interest rate that a company has to pay to borrow, over a similar period and with similar collateral, the funds necessary to acquire an asset of similar value to the right-of-use asset in a similar economic environment. Therefore, the additional borrowing rate is what the company "has to pay", which requires an estimate when observable rates are not available or when they need to be adjusted to reflect the terms and conditions of the lease. The company estimates the additional borrowing rate using observable inputs (such as market interest rates) when available.

G. Useful lives of the property, plant and equipment

An estimate of the useful lives of property, plant and equipment is made to calculate depreciation expense. This estimate is determined after considering the expected use of the asset. Management annually reviews the residual value and useful lives of these assets and future depreciation is considered when management believes that there is a difference between the useful lives and previous estimates.

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4. PROPERTY, PLANT AND EQUIPMENT

	Land	Leasehold improvements	Equipment	Containers and prefabricated houses	Computers and Printers	Vehicles	Furniture and fixtures	Machinery	Capital work in Progress	Total
(Saudi Riyals)										
Cost:										
As at January 1, 2021	-	3,320,710	3,654,349	49,500	210,604	411,741	428,806	12,812,858	407,149	21,295,717
Additions	-	623,406	1,468,555	95,450	11,969	205,144	28,789	236,158	15,238,844	17,908,315
Disposals	-	(137,114)	-	-	-	-	-	-	-	(137,114)
Transfers from CWIP	-	485,346	174,549	-	-	-	-	8,514,763	(9,174,658)	-
Adjustments (note 27)	-	-	-	-	-	-	-	(679,617)	-	(679,617)
As at December 31, 2021	-	4,292,348	5,297,453	144,950	222,573	616,885	457,595	20,884,162	6,471,335	38,387,301
As at January 1, 2022	-	4,292,348	5,297,453	144,950	222,573	616,885	457,595	20,884,162	6,471,335	38,387,301
Additions	25,257,532	224,111	2,657,379	-	91,554	356,435	81,620	164,184	24,234,646	53,067,461
Disposals	-	-	(3,304,456)	-	-	-	-	(7,858,824)	-	(11,163,280)
Transfers from CWIP	-	-	125,690	-	19,750	-	-	2,432,462	(2,577,902)	-
As at December 31, 2022	25,257,532	4,516,459	4,776,066	144,950	333,877	973,320	539,215	15,621,984	28,128,079	80,291,482
Accumulated depreciation:										
As at January 1, 2021	-	861,483	1,016,316	31,766	84,578	260,861	74,020	3,375,106	-	5,704,130
Depreciation	-	294,141	459,282	6,997	34,860	49,827	86,797	928,027	-	1,859,931
Disposals	-	(19,629)	-	-	-	-	-	-	-	(19,629)
Adjustments (note 27)	-	-	-	-	-	-	-	(190,131)	-	(190,131)
As at December 31, 2021	-	1,135,995	1,475,598	38,763	119,438	310,688	160,817	4,113,002	-	7,354,301
As at January 1, 2022	-	1,135,995	1,475,598	38,763	119,438	310,688	160,817	4,113,002	-	7,354,301
Depreciation	-	457,927	813,145	15,143	70,799	131,797	88,104	1,471,119	-	3,048,034
Disposals	-	-	(460,274)	-	-	-	-	(440,656)	-	(900,930)
As at December 31, 2022	-	1,593,922	1,828,469	53,906	190,237	442,485	248,921	5,143,465	-	9,501,405
Net book value										
As at December 31, 2021	-	3,156,353	3,821,855	106,187	103,135	306,197	296,778	16,771,160	6,471,335	31,033,000
As at December 31, 2022	25,257,532	2,922,537	2,947,597	91,044	143,640	530,835	290,294	10,478,519	28,128,079	70,790,077

- All property, plant and equipment have been mortgaged against loans (note 14).

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

The value of property, plant and equipment that was fully depreciated as at December 31, 2022 amounted to SR 814,518 (2021: SR 691,987).

The following is the distribution of depreciation expenses based on the nature of the expense:

	(Saudi Riyals)	
	2022	2021
Cost of revenues (note 19)	2,719,134	1,436,499
General and administrative expenses (note 20)	328,900	423,431
	3,048,034	1,859,930

5. RIGHT OF USE ASSETS AND LEASE LIABILITIES

	(Saudi Riyals)	
	2022	2021
Cost		
January 1	5,972,956	3,003,561
Adjustments (note 27)	-	774,725
January 1 (restated)	5,972,956	3,778,286
Additions		
Amendments to lease contracts	(623,583)	-
Generated from acquisition	-	2,194,670
December 31	15,633,836	5,972,956
Accumulated depreciation		
January 1	2,542,674	1,110,221
Additions	1,602,656	1,025,134
Generated from acquisition	-	407,319
December 31	4,145,330	2,542,674
Net book value		
December 31	11,488,506	3,430,282

The lease liabilities as at the end of the year are as follows:

	(Saudi Riyals)	
	2022	2021
January 1	3,411,508	1,847,453
Adjustments (note 27)	-	674,187
January 1 (restated)	3,411,508	2,521,640
Additions		
Amendments to lease contracts	(624,563)	-
Generated from acquisition	-	2,194,670
	12,249,083	4,716,310
Finance cost (note 22)	77,806	142,475
Paid	(1,160,617)	(1,447,277)
December 31	11,166,272	3,411,508
Current portion of lease liabilities	3,117,705	1,418,145
Non-current portion of lease liabilities	8,048,567	1,993,363
Lease liabilities	11,166,272	3,411,508

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5. RIGHT OF USE ASSETS AND LEASE LIABILITIES (continued)

The following is the distribution of depreciation expenses based on the nature of the expense:

	(Saudi Riyals)	
	2022	2021
Cost of revenues (note 19)	760,520	274,865
General and administrative expenses (note 20)	842,136	750,269
	1,602,656	1,025,134

6. INVENTORIES

	(Saudi Riyals)	
	2022	2021
Finished goods	11,831,696	18,547,126
Raw materials	9,753,573	10,388,766
Work in progress	51,683,430	19,763,121
Spare parts	187,318	-
	73,456,017	48,699,013
Less: slow-moving inventory provision	(5,244,990)	(5,244,990)
	68,211,027	43,454,023

Slow-moving inventory provision movement is as follows:

	(Saudi Riyals)	
	2022	2021
January 1	5,244,990	3,500,000
Charged during the year	-	1,744,990
December 31	5,244,990	5,244,990

7. TRADE RECEIVABLES

	(Saudi Riyals)	
	2022	2021
Trade receivables	39,631,574	33,017,649
Provision for expected credit losses*	(882,597)	(59,609)
	38,748,977	32,958,040

	Total SR	0-90 days SR	91-190 days SR	191-270 days SR	271-360 days SR	More than 360 days SR
December 31, 2022	39,631,574	36,877,134	1,783,354	880,808	90,278	-
December 31, 2021	33,017,649	29,450,619	1,985,834	1,512,992	-	68,204

*Movement in provision for expected credit losses is as follows:

	(Saudi Riyals)	
	2022	2021
January 1	59,609	-
Charged during the year	891,195	59,609
Write-off during the year	(68,207)	-
December 31	882,597	59,609

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8. PREPAYMENTS AND OTHER DEBIT BALANCES

	(Saudi Riyals)	
	2022	2021
Value added tax	18,063,303	5,957,523
Prepaid expenses	3,218,463	3,035,011
Refundable deposits	1,078,117	1,768,892
Advances to suppliers	594,537	5,675,710
Employee loans	255,850	117,530
Advance payment for land purchase	-	1,202,430
Other	205,311	135,775
	23,415,581	17,892,871

9. CASH AND CASH EQUIVALENTS

	(Saudi Riyals)	
	2022	2021
Cash at banks	2,989,460	41,939,686
Cash in hand	320,224	2,898
	3,309,684	41,942,584

10. SHARE CAPITAL

During the year 2021, the Extraordinary General Assembly decided on Safar 13, 1443H (corresponding to September 20, 2021) to increase the company's capital by SR 18,080,000, through transferring SR 5,000,000 from the retained earnings in addition to SR 13,080,000 in cash, capital of the company became as of December 31, 2021: SR 58,080,000 divided into 5,808,000 shares of equal value, the value of each share is SR 10.

	(Saudi Riyals)	
	2022	2021
January 1	58,080,000	40,000,000
Capital increases through retained earnings	-	5,000,000
Cash capital increase	-	13,080,000
December 31	58,080,000	58,080,000

On January 31, 2023, the Group's Board of Directors approved a proposal to divide the nominal value of the company's share into 10 parts, the nominal value per share will be (1) Saudi riyals instead of (10) Saudi riyals. The decision of the Board of Directors is subject to the approval of the shareholders at the next Annual General Assembly meeting.

11. TREASURY SHARES

	(Saudi Riyals)	
	2022	2021
January 1	5,000,000	-
Acquisition during the year	-	2,000,000
Adjustments (note 27)	-	3,000,000
December 31	5,000,000	5,000,000

During the year 2021, the company completed the purchase of part of its shares at a value of 2 million Saudi riyals (200 thousand shares) for the purpose of allocating them according to the following:

- 1- 100,000 shares for the purpose of exchange for the acquisition of shares or the purchase of assets.
- 2- 100,000 shares for the purpose of allocating them to the long-term employee incentive program. The "Taqdeer" plan and program for employee incentive shares was approved by the Board of Directors in their meeting held on January 31, 2023, and this is still subject to approval by the General Assembly.

In addition, during the year 2021, the partners waived 300,000 shares at a value of SR 3 million, with the aim of selling them to a strategic partner or disposing of them by the company. The shares have been registered with one of the managements, arranging, advising and custody companies in the securities business, where the benefit and ownership devolve in favor of the company.

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12. STATUTORY RESERVE

In accordance with the Company's Bylaws, the Company formed a non-distributable statutory reserve by transferring 10% of the annual net profit until the statutory reserve balance reached 30% of its share capital. This reserve is not subject to distribution as dividends.

13. SHARE PREMIUM

The company issued 1,308 million shares as part of the capital increase process, where the nominal value was 10 Saudi riyals for each share and the market value per share was 55 Saudi riyals as issuance premium, which resulted in 67,838,889 Saudi riyals after excluding related expenses.

14. LONG-TERM LOANS

	(Saudi Riyals)	
	2022	2021
January 1	13,908,870	9,208,870
Additions during the year	22,000,000	6,000,000
Paid during the year	(2,147,984)	(1,300,000)
December 31	33,760,886	13,908,870
Current portion	29,661,428	8,070,000
Non-current portion	4,099,458	5,838,870
	33,760,886	13,908,870

On April 25, 2017, the Group agreed with (Saudi Industrial Development Fund) to obtain a loan amounted to SR 13.8 million to finance the purchase of machinery and equipment at a predetermined rate.

During the year 2021, the group agreed with (Saudi Industrial Development Fund) to obtain a loan amounted to SR 6 million to finance export sales.

The group entered into an agreement to grant Islamic facilities from Riyadh Bank during the year 2022, where SR 10 million were obtained at a profit rate of SIBOR +2.75% of those facilities to finance working capital.

The group entered into an agreement to grant Murabaha facilities from the Saudi Export-Import Bank during the year 2022, where SR 11.5 million were obtained at a profit rate of SIBOR +225 basis points from these facilities to finance working capital.

These loans are secured by a mortgage over the Group's property, plant and equipment (Note 4). The concluded agreement contains covenants that require, among other things, the maintenance of a certain level of financial ratios, a certain level of capital expenditures and other requirements.

15. ACCRUED EXPENSES AND OTHER CREDIT BALANCES

	(Saudi Riyals)	
	2022	2021
Outside labour	1,430,217	855,735
Accrued expenses	1,313,544	2,401,392
Employee accruals	456,393	1,711,214
Advances from customers	428,694	585,103
	3,628,848	5,553,444

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16. EMPLOYEES' END OF SERVICE BENEFITS

The Group is required to pay post-employment benefits to all employees under Saudi labor laws upon termination of their service. The cost of the defined employee benefit obligation is measured using the actuarial valuation and the planned unit credit method.

Reconciliation of the present value of employees' defined benefits obligations

	(Saudi Riyals)	
	2022	2021
January 1	1,144,111	977,791
Generated from acquisition	-	206,083
Service cost	399,597	312,958
Finance cost (note 22)	21,113	15,645
Total recognized in profit or loss	1,564,821	1,512,477
Actuarial re-measurement losses	(42,608)	(83,285)
Benefits paid	(187,691)	(285,081)
December 31	1,334,522	1,144,111

Key actuarial assumptions

The following significant actuarial assumptions have been used by the Group to assess the employee defined benefit obligation:

	2022	2021
Discount rate	4.60%	2.25%
Expected rate of increase in salary level	4.60%	2.25%

Sensitivity analysis of actuarial assumptions

	(Saudi Riyals)	
	2022	2021
<u>Discount rate</u>		
1% increase	1,142,776	858,857
1% decrease	1,366,492	1,031,983
<u>Expected rate of increase in salary level</u>		
1% increase	1,371,748	1,035,265
1% decrease	1,136,400	854,563

Key actuarial assumptions

Sensitivity analysis of employee benefits have been prepared based on how they extrapolate the effect on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. Sensitivity analysis are based on the change in the underlying assumption, with all other assumptions held constant. Sensitivity analysis may not be reflective of an actual change in the defined benefit obligation nor is it likely that changes in assumptions will occur in isolation from each other.

17. ZAKAT PROVISION

The Company and its subsidiary submit their financial statements and Zakat returns to the Zakat, Tax and Customs Authority independently. Zakat is due at the rate of 2.5% of the approximate Zakat base or adjusted net profit, whichever is higher. The following are the most important components of the Zakat base according to the Zakat regulations:

	(Saudi Riyals)	
	2022	2021
Owners' equity	138,313,644	46,470,520
Non-current assets	(82,278,583)	(34,463,282)
Provisions and other reconciliations	29,548,664	38,991,185
Adjusted net profit	22,506,320	15,073,518
Zakat base	108,090,045	66,071,941

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17. ZAKAT PROVISION (continued)

The movement of the Zakat provision is as follows:

	(Saudi Riyals)	
	2022	2021
January 1	1,660,194	959,829
Charge for the current year	2,768,736	1,691,416
Paid during the year	(1,739,503)	(991,051)
December 31	<u>2,689,427</u>	<u>1,660,194</u>

Zakat status for the parent company

The company submitted its zakat returns until 2021 and obtained zakat certificates accordingly from the Zakat, Tax and Customs Authority. The company has settled its zakat assessments until 2018, and the returns for the years from 2019 to 2021 are still under review with the Authority.

Zakat status for the subsidiary

The subsidiary operates in a tax-exempt country, so no tax returns have been filed.

18. REVENUES

	(Saudi Riyals)	
	2022	2021
Export sales	365,950,447	113,760,073
Local sales	38,664,270	39,842,851
	<u>404,614,717</u>	<u>153,602,924</u>

19. COST OF REVENUES

	(Saudi Riyals)	
	2022	2021
Cost of goods sold	339,121,578	111,071,038
Production cost	23,195,328	18,022,874
Depreciation of property, plant, & equipment (note 4)	2,719,134	1,436,499
Repair and maintenance	2,049,735	1,523,817
Spare parts	851,901	231,316
Depreciation of right of use (note 5)	760,520	274,865
Insurance	254,938	252,419
Other	3,008,203	2,057,817
	<u>371,961,337</u>	<u>134,870,645</u>

20. GENERAL AND ADMINISTRATIVE EXPENSES

	(Saudi Riyals)	
	2022	2021
Salaries, wages and other benefits	5,374,667	4,434,311
Professional fees	1,223,122	613,543
Depreciation of right of use (note 5)	842,136	750,269
Depreciation of property, plant, & equipment (note 4)	328,900	423,431
Office expenses	262,968	157,947
Medical expenses	180,983	121,889
Travel expenses	133,100	5,250
Head office expenses	72,334	15,464
Government expenses	49,394	103,590
Repair and maintenance expenses	42,187	88,797
Other	1,101,830	1,274,678
	<u>9,611,621</u>	<u>7,989,169</u>

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20. GENERAL AND ADMINISTRATIVE EXPENSES (continued)

Compensation of senior management and board of directors of the Group during the year:
(Saudi Riyals)

	2022	2021
Short term benefits and rewards	1,199,100	1,735,850

21. OTHER (LOSS)/INCOME

(Saudi Riyals)

	2022	2021
loss from currency exchange	(382,184)	(152,488)
Generated profit from the acquisition	-	568,132
Other	42,290	(279,896)
	(339,894)	135,748

22. FINANCE COST

(Saudi Riyals)

	2022	2021
Long-term loans	825,978	55,454
Lease liabilities (note 5)	77,806	142,475
Employees' end of service benefits (note 16)	21,113	15,645
	924,897	213,574

23. BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share are calculated based on the net profit for the year attributable to the Company's shareholders based on the weighted average number of shares outstanding during that year.

	2022	2021
Profit for the year (Saudi Riyals)	18,117,037	11,264,545
Weighted average number of shares (Shares)	5,308,000	4,365,523
Basic and diluted earnings per share	3.41	2.58

There were no diluted shares outstanding at any time during the year, therefore the diluted earnings per share is equal to the basic earnings per share.

24. CONTINGENT LIABILITIES

(Saudi Riyals)

	2022	2021
Letters of Guarantee	716,666	1,333,332
	716,666	1,333,332

25. SEGMENT INFORMATION

The group has one business sector mainly represented in the import, export, wholesale and retail trade in scrap, aluminium, copper, plastic, electrical and electronic appliances, spare parts, tires, glass and all types of iron, sorting, storage and distribution, and the group has a geographical sector represented in the Kingdom of Saudi Arabia and the United Arab Emirates. Local and export sales have also been disclosed in note 18.

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26. FINANCIAL INSTRUMENTS

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Commission rate risk
- Currency risk
- Liquidity risk

As with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This disclosure describes the Group's objectives, policies, and operations; to manage those risks and the methods used to measure them. Further quantitative information regarding these risks is presented throughout these consolidated financial statements.

There were no material changes in the Group's exposure to financial management risks, and its objectives, policies, and operations; To manage those risks, or the methods used to measure them from previous periods, unless otherwise stated in this note.

The main financial instruments

The main financial instruments used by the Group and from which financial instrument risks arise are as follows:

- Trade receivables
- Other debit balances
- Cash and cash equivalents
- Trade payables
- loans
- Lease liabilities
- Accrued expenses and other credit balances

Fair value and its hierarchy

The Group measures financial instruments at fair value at the date of preparation of the consolidated financial statements. Where such measurement is required by the applicable financial reporting framework or the Group has an option and has elected to do so under permitted accounting policies or where the Group is required to disclose the fair value in these consolidated financial statements. 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, it will be in the most advantageous market for the asset or liability.

The group must have access to the principal market or the most advantageous market. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the highest and best use of the asset, 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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26. FINANCIAL INSTRUMENTS (continued)

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

Level 1: Quoted market prices (unadjusted) for identical assets or liabilities.

Level 2: Valuation techniques that can be determined directly or indirectly from the lowest level input that is significant to the fair value measurement.

Level 3: Valuation techniques that cannot be observed at the lowest level input that is significant to the fair value measurement.

For assets and liabilities that are recognized 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 reassessing categorization (based on the lowest level input that is significant to the fair value measured as a whole) at the end of each reporting period. The Group determines policies and procedures for both recurring and non-recurring fair value measurement. External valuers are involved in the valuation of significant assets. The group decides to participate in the external evaluators after discussing it with the audit committee of the group. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained. The group, after discussions with the external evaluators, decides which assessment methods and inputs to use for each case.

At each reporting date, the Group analyzes movements in the values of assets and liabilities that are required to be re-measured or re-evaluated in accordance with the Group's accounting policies. For this analysis, the Group verifies the main inputs applied in the final valuation by agreeing information in the valuation calculation for 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 on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial instruments by category

Financial assets/liabilities at amortized cost:

Financial assets:

	(Saudi Riyals)	
	2022	2021
Trade receivables	38,748,977	32,958,040
Cash and cash equivalents	3,309,684	41,942,584
Prepayments and other debit balances	23,415,581	17,892,871
Total financial assets	65,474,242	92,793,495

Financial liabilities:

	(Saudi Riyals)	
	2022	2021
Non-current:		
Loans	4,099,458	5,838,870
Lease liabilities	8,048,567	1,993,363
Current:		
Loans	29,661,428	8,070,000
Trade payables	6,910,608	6,719,029
Lease liabilities	3,117,705	1,418,145
Accrued expenses and other credit balances	2,689,427	5,553,444
Total financial liabilities	54,527,193	29,592,851

There are no financial instruments carried at fair value in these consolidated financial statements as at December 31, 2022 and 2021.

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26. FINANCIAL INSTRUMENTS (continued)

Objectives, general policies and operations

The Board of Directors has overall responsibility for defining the Group's risk management objectives and policies, and while it retains ultimate responsibility for them, it has delegated authority to design and operate processes that ensure effective implementation of the objectives and policies to the Group Managing Director. The Board of Directors receives monthly reports from the Managing Director of the Group, through which it reviews the effectiveness of the applied operations and the appropriateness of the objectives and policies it sets.

The overall objective of the Board of Directors is to establish policies that seek to limit risks to the maximum extent possible, without affecting the competitiveness and resilience of the Group. Below are more details about these policies:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed mainly to credit risk from credit sales. It is the Group's policy, implemented locally, to assess the credit risk of new customers before entering into contracts. These credit ratings are taken into account by local business practices.

The Group has established a credit policy under which each new customer is analyzed individually, for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The group audit includes external evaluations, when available, and in some cases a bank audit. Purchase limits are set for each client, which represents the maximum amount opened without the need for the approval of the Managing Director.

The Group determines concentrations of credit risk, by monitoring the credit rating of existing customers on a semi-annual basis, and through a monthly review of aging analysis of receivables. In monitoring customers' credit risk, customers are grouped according to their credit characteristics. Customers categorized as "high risk" are placed on the restricted customer list, and future credit sales are only made with advance payment.

Credit risk also arises from cash with banks and financial institutions.

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date as summarized below:

	(Saudi Riyals)	
	2022	2021
Trade receivables	38,748,977	32,958,040
Cash at banks	2,989,460	41,939,686
Other debit balances	20,197,118	14,857,860
Total financial assets	61,935,555	89,755,586

The carrying amount of financial assets represents the maximum credit risk. Credit risk on receivables and bank balances is limited as follows:

- Cash balances are held with banks with good credit rating.
- Trade receivables are shown net of allowance for impairment.

The Group manages credit risk in respect of receivables from customers, by monitoring in accordance with defined policies and procedures. The Group seeks to limit its credit risk with respect to customers by monitoring outstanding receivables on an ongoing basis. As at December 31, 2022, the receivables balance consists of 9.70% of customers inside the Kingdom of Saudi Arabia (31 December 2021: 5.20%), and 90.30% of customers outside the Kingdom of Saudi Arabia (31 December 2021: 94.80%).

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26. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

Accounts receivable and the corresponding expected credit losses at the end of the year are as follows:

<u>December 31, 2022</u>	Expected loss rate	Total book value	Expected credit loss	Net book value
From 0 to 90 days	%1.9	36,877,134	(684,430)	36,192,704
Past due 91-190 days	%4.5	1,783,354	(80,468)	1,702,886
Past due 191-270 days	%11.0	880,808	(96,964)	783,844
Past due 271-360 days	%23.0	90,278	(20,735)	69,543
Past due by more than 360 days	%0	-	-	-
Total		39,631,574	(882,597)	38,748,977

<u>December 31, 2021</u>	Expected loss rate	Total book value	Expected credit loss	Net book value
From 0 to 90 days	%0.08	29,450,619	(23,560)	29,427,059
Past due 91-190 days	%0.10	1,985,834	(1,987)	1,983,847
Past due 191-270 days	%0.25	1,512,992	(3,782)	1,509,210
Past due 271-360 days	%0	-	-	-
Past due by more than 360 days	%44	68,204	(30,280)	37,924
Total		33,017,649	(59,609)	32,958,040

The Group monitors the credit ratings of counterparties regularly and at the reporting date and does not expect any losses from non-performance of counterparties. For all financial assets to which impairment requirements have not been applied, the carrying amount represents the maximum exposure to credit loss.

Commission rate risk

Commission rate risk represents the risk resulting from the fluctuation of the value of financial instruments due to changes in commission rates prevailing in the market. The Group manages commission rate risk by monitoring changes in commission rates on an ongoing basis.

The interest rates for the financial instruments which held interest for the Group as at the date of the consolidated financial statements are shown as follows:

	(Saudi Riyals)	
	2022	2021
Financial instruments with floating rate		
Financial liabilities	29,661,428	5,838,870
	29,661,428	5,838,870

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises from recognized assets and liabilities that are denominated in currencies other than the Group's functional currency. The Group does not believe that it is exposed to significant currency risk as the majority of the Group's transactions and balances are denominated in Saudi Riyals, UAE Dirhams, US Dollars or Euros. The currency of the Group's activity is pegged to the US dollar. The Group's transactions in currencies other than Saudi Riyals or US Dollars are not significant.

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26. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or any other financial asset. Prudent liquidity risk management involves maintaining sufficient cash and marketable securities, and availability of funding, through an adequate amount of committed credit facilities.

The Group's liquidity management includes forecasting cash flows, considering the level of liquid assets needed to meet, monitoring liquidity ratios and maintaining debt financing plans.

The table below analyzes the Group's financial liabilities by relevant maturity groups based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are the contractual cash flows.

<u>December 31, 2022</u>	Less than one year	More than one year	Undetermined maturity	Total
Loans	29,661,428	4,099,458	-	33,760,886
Lease liabilities	3,117,705	8,048,567	-	11,166,272
Trade payables	6,910,608	-	-	6,910,608
Accrued expenses and other credit balances	-	-	3,628,848	3,628,848
Total	39,689,741	12,148,025	3,628,848	55,466,614

<u>December 31, 2021</u>	Less than one year	More than one year	Undetermined maturity	Total
Loans	8,070,000	5,838,870	-	13,908,870
Lease liabilities	1,418,145	1,993,363	-	3,411,508
Trade payables	6,719,029	-	-	6,719,029
Accrued expenses and other credit balances	-	-	5,553,444	5,553,444
Total	16,207,174	7,832,233	5,553,444	29,592,851

Capital management

The Group's objectives for capital management are as follows:

- a) Ensuring the Group's ability to continue as a going concern.
- b) Provide an adequate return to shareholders by pricing services in a manner that reflects the level of risk involved in providing these services.

The Group's capital objective is to maintain a high capital to total leverage ratio.

Management estimates the Group's capital requirements in order to maintain an effective overall funding structure and avoid material impact, taking into account the levels involved in the Group's various classes of indebtedness. The Group manages its capital structure and makes adjustments to it in line with changes in economic conditions and risk characteristics of the underlying assets in order to maintain or adjust the capital structure. The Group may adjust the dividends paid to shareholders, return equity capital, issue new shares or sell assets to reduce debt.

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26. FINANCIAL INSTRUMENTS (continued)

The following is the net debt to equity ratio of the Group at the end of the year:

	(Saudi Riyals)	
	2022	2021
Loans	33,760,886	13,908,870
Trade payables	6,910,608	6,719,029
	<u>40,671,494</u>	<u>20,627,899</u>
Less:		
Cash and cash equivalents	(3,309,684)	(41,942,584)
Net debt	37,361,810	-
Net equity	156,473,289	138,313,644
Net debt to equity ratio	<u>0.24</u>	<u>-</u>

27. PRIOR YEARS' ADJUSTMENTS

The Group found that there were accounting misstatements related to previous periods, and therefore the management has adjusted the comparative figures to correct these misstatements as follows:

The following is a summary of the adjustments to the statement of financial position as at January 1, 2021:

	Note	(Saudi Riyals)		
		1 January 2021	Adjustments	1 January 2021 (Restated)
Assets				
Property, plant and equipment	A	14,773,668	(538,030)	14,235,638
Prepayments and other debit balances	B	6,587,323	(240,900)	6,346,423
Liabilities				
Long-term loans	B	9,541,000	(355,335)	9,185,665
Equity				
Retained earnings	A/B	5,528,545	(423,595)	5,104,950

The following is a summary of the adjustments to the statement of financial position as at December 31, 2021:

	Note	(Saudi Riyals)		
		31 December 2021	Adjustments	31 December 2021 (Restated)
Assets				
Property, plant and equipment	A	31,522,486	(489,486)	31,033,000
Right of use assets	E	2,655,557	774,725	3,430,282
Trade receivables	F	33,017,677	(59,637)	32,958,040
Prepayments and other debit balances	B	17,982,871	(90,000)	17,892,871
Liabilities				
Loans	B	14,241,000	(332,130)	13,908,870
Lease liabilities	H	2,737,321	674,187	3,411,508
Accrued expenses and other credit balances	C	4,573,982	979,462	5,553,444
Equity				
Share premium	C	68,818,351	(979,462)	67,838,889
Treasury shares	D	(2,000,000)	(3,000,000)	(5,000,000)
Retained earnings		12,532,782	2,793,544	15,326,326
Statutory reserve		2,049,054	19,375	2,068,429

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27. PRIOR YEARS' ADJUSTMENTS (continued)

The following is a summary of the adjustments to the statement of profit or loss and other comprehensive income for the year ended December 31, 2021:

	Note	(Saudi Riyals)		
		31 December 2021	Adjustments	31 December 2021 (Restated)
Cost of revenue	A	(134,919,189)	48,544	(134,870,645)
General and administrative expenses	E	(8,149,315)	160,146	(7,989,169)
Provision for expected credit losses	F	-	(59,609)	(59,609)
Other income	A/B	4,018	131,730	135,748
Finance cost	B	(209,539)	(4,035)	(213,574)

The following is a summary of the amendments to the statement of cash flows for the year ending December 31, 2021:

	(Saudi Riyals)		
	31 December 2021	Adjustments	31 December 2021 (Restated)
Net cash flows used in operating activities	(42,713,964)	1,460,251	(41,253,713)
Net cash flows used in investing activities	(17,618,878)	975	(17,617,903)
Net cash flows from financing activities	85,656,043	(1,461,226)	84,194,817

- A- During the period, the Group noticed that there were capitalized financing costs on property, plant and equipment amounted to SR 728,161, these costs do not meet the conditions of borrowing costs capitalization according to the requirements of IAS 23 - Borrowing Costs. As a result, the Group's management corrected the impact of this on property, plant and equipment, retained earnings and cost of revenue.
- B- During previous periods, the Group recognized prepaid financing costs in profit or loss using the straight-line method. During the current period, the Group used the effective interest rate method to correct this misstatement in order to comply with the accounting standards, which affected the balances of prepaid expenses and other debit balances, loans and financing cost.
- C- The Group has recognized the expenses related to the issuance of premium shares on an accrual basis in accordance with the accounting standards.
- D- The group noticed the presence of treasury shares related to the year 2021, with a value of SR 3 million, where the benefit devolves in favor of the company. It was not recognized as treasury shares within equity, as a result, the group management accounted for the impact of this matter on retained earnings and treasury shares.
- E- The subsidiary company corrected the accounting treatment for calculating lease contracts and lease liabilities because there was an amendment to those contracts on May 18, 2022 and retroactively from January 1, 2022.
- F- The subsidiary has recalculated the expected credit loss provision for the year ended December 31, 2022 in accordance with IFRS 9 - Financial Instruments.

28. SUBSEQUENT EVENTS

In the opinion of the Group's management, and with the exception of what's mentioned in note 10 and 11, there are no subsequent events since the end of the financial year that require additional disclosures about these consolidated financial statements.

29. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors on Ramadan 07, 1444 H (corresponding to March 29, 2023).