

**Petrochem Group LLC and Petrochem Performance
Products LLC**

Consolidated Financial Statements
For the year ended 31 December 2023

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

For the year ended 31 December 2023

Table of contents

	Page(s)
Directors' report	1
Independent auditor's report	2 - 4
Consolidated statement of financial position	5
Consolidated statement of comprehensive income	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	8 - 9
Notes to the Consolidated financial statements	10 – 39

Directors' report

The Director submitted the report for the year ended 31 December 2023.

1. Review of activities

Main business and operations

Petrochem Group LLC is mainly engaged in production of chemicals, sales of lubricants, agency activities for the sales of different goods, distribution, import and export of chemical products and provision of other services.

Petrochem Performance Products LLC is mainly engaged in sale, marketing and production of chemicals and associated products including equipment systems as well as provision of related services to the upstream oil and gas sector in the Republic of Azerbaijan.

Petrochem Group LLC and Petrochem Performance Products LLC are together referred to as the "Group".

Consolidated operating results and consolidated statement of financial position of the Group are fully set out in the attached consolidated financial statements. The consolidated net profit after tax for the current year is USD 1,946,526 (2022: USD 1,445,525).

2. Directors

The Director of Petrochem Group LLC during the year and to the date of this report is Mr. Ahad Aliyev.

The Director of Petrochem Performance Products LLC is Mr. Elshad Ganiyev.

3. Auditors

Grant Thornton were appointed as auditors of the Group for the year ended 31 December 2023 and being eligible, have offered themselves for re-appointment. The Directors have proposed their appointment as auditors of the Group for the year ending 31 December 2024.

These consolidated financial statements for the year ended 31 December 2023 (including comparatives) were approved on 22 May 2024 and signed by:

On behalf of the Management Board:

Mr. Ahad Aliyev
(Director)



Mr. Rauf Farzaliyev
(Chief Accountant)



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Independent auditor's report To the Shareholders of Petrochem Group LLC

Report on the audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Petrochem Group LLC and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Ethics Standards Board for Accountants' *international Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Director and Management are responsible for the other information. The other information comprises of the Director's Report, which we obtained prior to the date of this report.

Our opinion on the consolidated financial statements does not cover the other information except for the financial information given in the Directors' Report, and accordingly we do not express any form of assurance or 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, based on the work we have performed on the other information that we obtained prior to the date of this report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Emphasis of matter paragraph

As mentioned in note 1 to the consolidated financial statements, we have audited Petrochem Group LLC and Petrochem Performance Products LLC separately under the accounting framework "International Financial Reporting Standard", however results and operations of these entities are consolidated for management's purposes, investors and for lenders only.

Independent auditor's report (continued)

To the Shareholders of Petrochem Group LLC

Responsibilities of the 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 IFRSs and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent auditor's report (continued)
To the Shareholders of Petrochem Group LLC

Auditors' Responsibilities for the audit of the Consolidated Financial Statements (continued)

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

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



GRANT THORNTON
Baku, Azerbaijan Republic

22 May 2024



Petrochem Group LLC and Petrochem Performance Products LLC

Consolidated financial statements

Consolidated statement of financial position

At 31 December 2023

	Notes	2023 USD	2022 USD
ASSETS			
Non-current assets			
Property, plant, equipment and right-of-use assets	5	3,611,610	3,479,122
Intangible assets	6	12,902	13,736
Deferred tax asset	20	334,234	258,440
		<u>3,958,746</u>	<u>3,751,298</u>
Current assets			
Inventories	7	2,070,155	2,322,351
Trade and other receivables	8	1,282,065	1,635,968
Amounts due from a related party	9	254,312	515,782
Cash and cash equivalents	10	2,151,869	1,877,913
		<u>5,758,401</u>	<u>6,352,014</u>
TOTAL ASSETS		<u>9,717,147</u>	<u>10,103,312</u>
EQUITY AND LIABILITIES			
Equity			
Charter capital	11	3,964,806	3,964,806
Treasury shares	11	(5,000,000)	(5,000,000)
Translation reserves		1,187,379	1,187,379
Retained earnings		1,037,009	231,103
		<u>1,189,194</u>	<u>383,288</u>
Non-controlling interest		3,560,273	4,015,071
Total equity		<u>4,749,467</u>	<u>4,398,359</u>
LIABILITIES			
Non-current liabilities			
Borrowings	12	1,376,880	2,666,317
Lease liabilities	13	79,048	39,705
Total non-current liabilities		<u>1,455,928</u>	<u>2,706,022</u>
Current liabilities			
Borrowings	12	1,294,824	1,216,005
Lease liabilities	13	45,868	34,570
Trade and other payables	14	2,147,236	1,724,532
Loan from a related party	9	23,824	23,824
Total current liabilities		<u>3,511,752</u>	<u>2,998,931</u>
Total liabilities		<u>4,967,680</u>	<u>5,704,953</u>
TOTAL EQUITY AND LIABILITIES		<u>9,717,147</u>	<u>10,103,312</u>

These consolidated financial statements for the year ended December 31, 2023 were approved on 22 May 2024 and signed by:

Mr. Ahad Aliyev
(Director)



Mr. Rauf Farzaliyev
(Chief Accountant)

The accompanying notes from 1 to 27 form an integral part of these consolidated financial statements.

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Consolidated statement of comprehensive income
For the year ended 31 December 2023

	Notes	2023 USD	2022 USD
Revenue	15	11,008,368	12,303,632
Cost of sales	16	(7,096,536)	(7,945,349)
GROSS PROFIT		3,911,832	4,358,283
Administrative and general expenses	17	(2,074,268)	(2,411,652)
Loss on disposal of a subsidiary		-	(368,974)
Reclassification of translation reserve from other comprehensive income on disposal of a foreign operation	26	-	(536,027)
Exchange gain – net		4,031	9,781
Other income – net	18	948,565	841,169
PROFIT BEFORE INTEREST AND TAX		2,790,160	1,892,580
Finance costs	19	(235,349)	(305,321)
PROFIT FOR THE YEAR BEFORE TAX		2,554,811	1,587,259
Taxations:			
- income tax expense	20	(684,079)	(675,434)
- deferred tax income/(expense)	20	75,794	(2,327)
PROFIT FOR THE YEAR		1,946,526	909,498
Other comprehensive income			
Items that may be reclassified to the consolidated profit or loss in future periods			
Reclassification of translation reserve to profit and loss account on disposal of a foreign operation		-	536,027
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,946,526	1,445,525
Profit for the year attributable to:			
Owners of the Parent Company		1,567,344	543,567
Non-controlling interest		379,182	365,931
		1,946,526	909,498
Other comprehensive income for the year attributable to:			
Owners of the Parent Company		-	536,027
Non-controlling interest		-	-
		-	536,027
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,946,526	1,445,525

The accompanying notes from 1 to 27 form an integral part of these consolidated financial statements.

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Consolidated statement of changes in equity
for the year ended 31 December 2023

	Charter capital USD	Treasury shares USD	Translation reserves USD	Retained earnings USD	Total attributable to the owners of Parent USD	Non- controlling interest (NCI) USD	Total equity USD
January 2022	3,964,806	(5,000,000)	651,352	353,222	(30,620)	3,354,615	3,323,995
Profit for the year	-	-	-	543,567	543,567	365,931	909,498
Other comprehensive income	-	-	536,027	-	536,027	-	536,027
Total comprehensive income	-	-	536,027	543,567	1,079,594	365,931	1,445,525
Decrease recognized on disposal of a subsidiary (note 2)	-	-	-	-	-	665,945	665,945
Transactions with owners	-	-	-	(665,686)	(665,686)	(371,420)	(1,037,106)
1 December 2022	3,964,806	(5,000,000)	1,187,379	231,103	383,288	4,015,071	4,398,359
Profit for the year	-	-	-	1,567,344	1,567,344	379,182	1,946,526
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	1,567,344	1,567,344	379,182	1,946,526
Contribution in the Share Capital of the subsidiary	-	-	-	-	-	(735,000)	(735,000)
Transactions with owners	-	-	-	(761,438)	(761,438)	(98,980)	(860,418)
1 December 2023	3,964,806	(5,000,000)	1,187,379	1,037,009	1,189,194	3,560,273	4,749,467

The accompanying notes from 1 to 27 form an integral part of these consolidated financial statements.

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Consolidated statement of cash flows
For the year ended 31 December 2023

	Notes	2023 USD	2022 USD
OPERATING ACTIVITIES			
Net profit before tax		2,554,811	1,587,259
Adjustments for non-cash and non-operating items:			
Depreciation of property, plant, equipment and right-of-use assets	5	279,982	186,202
Loss on disposal of a subsidiary	26	-	368,974
Transfer of translation reserve on disposal of a subsidiary	26	-	536,027
Amortization of intangible assets	6	1,434	1,194
Provision for trade receivables (ECL)	8	173,699	6,998
Provision for cash at banks	10	19,792	7,961
Income arising on termination of lease contract	18	-	(23,381)
Finance costs on lease liabilities	19	18,727	11,670
Finance costs on borrowing	19	216,622	293,651
<i>Net changes in working capital</i>			
Inventories		252,196	(796,046)
Trade and other receivables		180,204	478,074
Amounts due from a related party		261,470	68,635
VAT deposit		20,764	(40,483)
Loan to a related party		-	37,000
Loan from a related party		-	23,824
Trade and other payables		422,704	910,913
		4,402,405	3,658,472
Income tax paid		(684,079)	(675,434)
Net cash generated from operating activities		3,718,326	2,983,038
INVESTING ACTIVITIES			
Purchase of property, plant and equipment excluding right-of-use assets		(305,310)	(69,029)
Proceed from disposal of property, plant and equipment		-	11,237
Purchase of intangible assets	6	(600)	-
Net cash used in investing activities		(305,910)	(57,792)

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Consolidated statement of cash flows
For the year ended 31 December 2023

	Notes	2023 USD	2022 USD
FINANCING ACTIVITIES			
Dividend paid	11	(860,418)	(1,037,106)
Acquisition of non-controlling interest	11	(735,000)	-
Repayment of borrowings	12	(1,427,240)	(1,419,454)
Payment of lease liabilities		(75,246)	(41,248)
Net cash used in financing activities		(3,097,904)	(2,497,808)
Net change in cash and cash equivalents		314,512	427,438
Cash and cash equivalents, at the beginning of year		1,857,473	1,430,035
Cash and cash equivalents, at the end of year	10	2,171,985	1,857,473

Petrochem Group LLC and Petrochem Performance Products LLC

Consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 December 2023

1 Legal status and nature of the operations of the Group

Petrochem Group LLC (the “Company”) was registered with the General department of National Revenues of the State Tax Service under the Ministry of Economy under the registration no. 1500220591 issued on 30 June 1993 as a limited liability company.

Petrochem Performance Products LLC (the subsidiary company) was registered with the State Register of Commercial Legal Entities of the Ministry of Taxes of the Republic of Azerbaijan under the tax identification no. 1101584111 issued on 3 May 2017 as a limited company.

The principal activity of Petrochem Group LLC is production of chemicals, sales of lubricants, agency activities for the sales of different goods, distribution, import and export of chemical products and provision of other services.

The principal business activities of the Petrochem Performance Products LLC are sale, marketing and production of chemicals and associated products including equipment systems as well as provision of related services to the upstream oil and gas sector in the Republic of Azerbaijan.

Petrochem Group LLC and Petrochem Performance Products LLC are together referred to as the “Group”.

The registered office of the Petrochem Group LLC business as of 31 December 2023 was located at Matbuat Avenue 31, Yasamal district, AZ 1100, Baku, the Republic of Azerbaijan. This company has 28 employees as at 31 December 2023 (2022: 26).

The registered office of Petrochem Performance Products LLC as well as principal business place of the Petrochem Group LLC as of 31 December 2023 were located at House 8, Salyan highway 29th km, Garadagh district, AZ 1083, Baku, the Republic of Azerbaijan. This company has 23 employees as at 31 December 2023 (2022: 25).

Petrochem Group LLC is owned 35% by Mr. Farkhad Aliyev and the Company has 65% treasury shares.

Petrochem Performance Products LLC is owned 51% by Petrochem Group LLC and 49% by Champion X Azerbaijan LLC.

These consolidated special purpose financial statements are prepared for management’s purpose and for the investors and lenders only and do not represent statutory accounts for either of the companies or of the Group.

2 Statement of compliance with IFRS

These consolidated financial statements of the Group have been prepared, for management purposes, in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The accounting framework used for accounting at standalone level was also International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

Petrochem Group LLC and Petrochem Performance Products LLC

Consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 December 2023

3 Standards, interpretations and amendments to existing standards

3.1 Standards, interpretations and amendments to existing standards that are effective in 2023

New and revised IFRS	Effective for annual period beginning on or after
Amendments to IAS 1 'Presentation of Financial Statements' to address the classification of liabilities as current or non-current providing a more general approach based on the contractual arrangements in place at the reporting date.	1 January 2023
IFRS 17 'Insurance Contracts' which requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.	1 January 2023
Amendments to IFRS 17 'Insurance Contracts' to address concerns and implementation challenges identified after IFRS 17 was published in 2017.	1 January 2023
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4). The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 'Insurance Contracts' from applying IFRS 9 'Financial Instruments', so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.	1 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) which require that an entity discloses its material accounting policies, instead of its significant accounting policies.	1 January 2023
The IASB issued 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)' that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.	1 January 2023
The amendments replace the definition of Accounting Estimates (Amendments to IAS 8) - The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".	1 January 2023

These standards have been adopted by the Group and did not have material impact on these financial statements.

3.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorization of these consolidated financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB or IFRIC. None of these Standards or amendments to existing Standards have been adopted early by the Group and no Interpretations have been issued that are applicable and need to be taken into consideration by the Group at either reporting date.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year are not expected to have a material impact on the Group's consolidated financial statements in the year of adoption.

4 Material accounting policy information

4.1 Overall considerations

These consolidated financial statements have been prepared using the measurement bases specified by IFRSs for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below. Further the accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied for the financial year ended 31 December 2022, except for changes in accounting policies described in note 3.1.

Petrochem Group LLC and Petrochem Performance Products LLC

Consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 December 2023

4 Material accounting policy information (continued)

4.2 Foreign currency translation

Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operate ("the functional currency" Azerbaijan New Manat – AZN). The consolidated financial statements are then translated to presentation currency (United States dollars – USD).

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined. The exchange rates used by the Group in the preparation of these consolidated financial statements are as follows:

Year end	31 December 2023	31 December 2022
Spot rate	USD 1 = AZN 1.7000	USD 1 = AZN 1.7000
Average rate	USD 1 = AZN 1.7000	USD 1 = AZN 1.7000

4.3 Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiary (as disclosed in note 1) as of 31 December 2023 on line by line basis. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- can use its power to affect its returns.

Subsidiary has a reporting date of 31 December and are consolidated line by line.

All transactions and balances between Group companies are eliminated in full on consolidation, including unrealised gains and losses on transactions between Group companies where unrealised losses on intra-Group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiary have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests, if any, are presented as part of equity. These represent the portion of a subsidiary's profit or loss and net assets that are not held by the Group. The Group attributes total comprehensive income or loss of subsidiary between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Petrochem Group LLC and Petrochem Performance Products LLC

Consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 December 2023

4 Material accounting policy information (continued)

4.4 Property, plant, equipment and right-of-use assets

Property, plant and equipment are initially recognized at acquisition cost or construction cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

The Group follows cost model and hence the assets were subsequently measured using the cost model, cost less subsequent depreciation and impairment losses (if any).

Other assets are initially recognized at acquisition cost or construction cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the management of the Group. These assets are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses.

The Group recognize depreciation on a reducing balance method and write-down the cost less estimated residual value for all assets. The annual rates for Group ranges between:

Buildings	7%
Plant, machinery and equipment	10 – 33%
Vehicles	10 – 25%
Office equipment	15 – 40%
Right-of-use assets	Over the period of lease liability

As no finite useful life for land can be determined, related carrying amounts are not depreciated.

Depreciation on additions to property, plant and equipment is charged from the day from which the asset is acquired or capitalized while no depreciation is charged for the day in which the asset is disposed of.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets are recognized in profit or loss within 'other income – net'.

4.4.1 Right-of-use assets and lease liabilities

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for the Company for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assess whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physical distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
 - the Company has the right to operate the asset; or
 - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the

Petrochem Group LLC and Petrochem Performance Products LLC

Consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 December 2023

4 Material accounting policy information (continued)

4.4.1 Right-of-use assets and lease liabilities (continued)

consideration in the contract to each lease component on the basis of their relative stand-alone process. However, where the contract is not separable into lease and non-lease component then the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is yearly reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this manner, a corresponding adjustment is made to the carrying amount of the right-of-use asset. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

4.5 Intangible assets

Intangible assets include acquired software and its related licenses in operations or administration that qualifies for recognition as an intangible asset.

They are accounted for using the cost model. Capitalized costs are amortized on a reducing balance method. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in note 4.6.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Petrochem Group LLC and Petrochem Performance Products LLC

Consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 December 2023

4 Material accounting policy information (continued)

4.6 Impairment testing of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use.

To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows.

The data used for impairment testing procedures are directly linked to the latest approved budget of the Group, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles, such as market and asset-specific risks factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

4.7 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Group' becomes party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Financial assets and financial liabilities are measured subsequently as described below.

Classification and measurement

Financial assets

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL).

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Petrochem Group LLC and Petrochem Performance Products LLC

Consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 December 2023

4 Material accounting policy information (continued)

4.7 Financial instruments (continued)

Classification and measurement (continued)

Financial assets (continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment:

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is being managed and information is provided to management.

Assessment whether contractual cash flows are solely payments of principal and profit:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Impairment

The Group recognizes allowance for impairment for expected credit losses (ECL) on financial assets measured at amortised cost and commitments issued.

The Group measures allowance for impairment at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition, in which case 12-month ECL is measured.

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

4 Material accounting policy information (continued)

4.7 Financial instruments (continued)

Classification and measurement (continued)

Impairment (continued)

Measurement of ECL

ECL are probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expect to receive).
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn finance commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expect to receive.

Credit-impaired financial assets:

At each reporting date, the Group assess whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision model and has used average default rates as per the best estimate of management for the financial assets of similar credit risk profile.

Write-off:

Assets carried at amortized cost are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Presentation of impairment

Loss allowance for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Classification and subsequent measurement of financial liabilities

Financial liabilities comprise of borrowings, lease liabilities and trade and other payables.

Financial liabilities are measured subsequently at amortized cost using the effective interest method.

All interest-related charges are included within 'interest expenses'.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Petrochem Group LLC and Petrochem Performance Products LLC

Consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 December 2023

4 Material accounting policy information (continued)

4.8 Inventories

Inventories are stated at the lower of cost and net realizable value.

Raw materials cost comprises of purchase cost and other costs incurred in bringing the raw material to their present location and condition.

Finished goods cost comprises of direct material cost, direct labour and an appropriate share of production overheads based on normal operating capacity.

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs. Petrochem Group LLC and Petrochem Performance Products LLC assign costs for inventories using weighted average cost method. When inventories are sold, the carrying amounts of those inventories are recognized as an expense in the period in which the related revenue is recognized.

4.9 Cash and cash equivalents

Cash and cash equivalents are items, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand, current account balances with banks and are initially and subsequently are carried at amortized cost using the effective interest method. Further the Group has applied IFRS 9 ECL model to calculate the impairment of cash at banks. For the purpose of the statement of cash flows, all cash and bank balances are considered to be cash equivalents.

4.10 Equity and retained earnings

Share capital represents the nominal value of shares that have been issued.

Currency exchange reserves represents the effect of currency translation from functional currency to reporting currency.

The Company holds treasury shares as explained in note 11. In the absence of a standard or interpretation that specifically applies to this transaction, as per management judgement, the Company has adopted a policy to disclose these treasury shares at their repurchase price as an element of equity.

Dividend distributions payable to equity shareholders are included in 'trade and other payables' when the dividends have been approved in a general meeting prior to the reporting date.

Retained earnings/ Accumulated losses include all current and prior years' profits and losses.

4.11 Provisions and contingent liabilities

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material. Any reimbursement that the Group can be virtually certain to collect from a third

Petrochem Group LLC and Petrochem Performance Products LLC

Consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 December 2023

4 Material accounting policy information (continued)

4.11 Provisions and contingent liabilities (continued)

party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

4.12 Revenue

IFRS 15 Revenue from Contracts with Customers outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance found across several Standards and Interpretations within IFRSs. It establishes a new five-step model, explained below, that will apply to revenue arising from contracts with customers.

- Step 1 Identify the contract with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for each of those rights and obligations.
- Step 2 Identify the performance obligations in the contract: A performance obligation in a contract is a promise to transfer a good or service to the customer.
- Step 3 Determine the transaction price: Transaction price is the amount of consideration to which the Group expect to be entitled in exchange for transferring the promised goods and services to a customer, excluding amounts collected on behalf of third parties.
- Step 4 Allocate the transaction price to the performance obligations in the contract: For a contract has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Group expect to be entitled in exchange for satisfying each performance obligation.
- Step 5 Recognize revenue as and when the Group satisfy a performance obligation.

Sale of goods

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer and thereby the performance obligations are satisfied, at amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

The Group has concluded that based on the contractual arrangement control of goods are transferred and performance obligations are satisfied at a point in time when the goods are dispatched to the customers.

Service income

Revenue from rendering of services comprises service contracts. Service income is recognized based on stage of completion of services provided.

Rental income

Rental income is recognized when earned, on a time apportionment basis.

4.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are recognized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in 'finance costs'.

Petrochem Group LLC and Petrochem Performance Products LLC

Consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 December 2023

4 Material accounting policy information (continued)

4.14 Operating expenses

Operating expenses are recognized in profit or loss upon recognized of the service or at the date of their origin.

4.15 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within twelve months after the service is rendered) are recognized in the period in which the service is rendered and are not discounted. The expected cost of compensated absences is recognized as an expense when the employee renders services that increase their entitlement or, in the case of non-accumulating absences, when the absences occur.

End of service benefits

As required by Azerbaijan legislation, the Group withhold amount of pension contributions from the salaries of employees and pays them to the state pension fund along with its own share of contribution. Upon retirement all retirement benefit payments are made by the state pension fund. Further, in accordance with amendments in the Tax Code of the Republic of Azerbaijan during the year 2019, these rates have been set as 15% and 10% for the entity and employees respectively.

There is also social tax payable by the entity at a flat rate of gross income, less exempt amounts. The minimum tax base for social tax per employee is the minimum monthly wage. The entity also must pay social insurance contributions, which form part of social tax.

4.16 Taxation

Current tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible and it is calculated on statutory numbers. The current tax expense of the Group is calculated using tax rates that have been enacted or substantively enacted in the Azerbaijan Republic during the reporting period.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the consolidated statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities: and
- Deferred tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The Azerbaijan Republic also has various other taxes, which are assessed on the activities of the Group. These taxes are included as a component of operating expenses in the consolidated statement of comprehensive

Petrochem Group LLC and Petrochem Performance Products LLC

Consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 December 2023

4 Material accounting policy information (continued)

4.17 Significant management judgement in applying accounting policies

The preparation of consolidated financial statements requires management to make judgement, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The Group has consistently applied the estimates and judgements as applied by the Group in the annual financial year ended 31 December 2022. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Currency translations

The functional currency of the Group companies is AZN. The presentation currency in these consolidated financial statements is USD. For the purpose of conversion, the share capital of the Group companies has been approximately recorded at historical cost in these consolidated financial statements. The opening retained earnings as at 1 January 2017 have been translated at 'average rate from establishment of each company to 1 January 2017'. The profits for the year 2017, 2018, 2019, 2020, 2021, 2022 and 2023 have been translated at average rate of respective years. Therefore, translation reserve has been recorded in these consolidated financial statements.

Estimating allowance for doubtful accounts

At each reporting date, the management uses an allowance matrix to measure Expected Credit Loss (ECL) of trade receivables. Impairment on trade receivable is recognized based on ECL model with various assumptions.

The Group recognized allowance for impairment for expected credit losses (ECL) on financial assets measured at amortized cost. Impairment losses are recognized in the profit or loss. The Group measures allowance for impairment at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition, in which case 12-month ECL is measured. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date. The impairment is recorded having applied the Loss Given Default (LGD) and probability of default (PD) amount to the cost of financial assets considered for the purpose of calculation of impairment.

For the purpose of calculation of PD, historical ageing has been obtained, the roll rates and healing rate has been calculated based on the history of aged receivables. The same rates were used for the calculation of average roll rates and conditional probability. The LGD was calculated by dividing the total default amount with total loss amount. The forward looking assumption was also applied, and outlook of collection has been considered positive.

Control assessment

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in note 4.3. Management has reviewed its control assessments in accordance with IFRS 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Company's investees held during the period or comparative periods covered by these consolidated financial statements.

Petrochem Group LLC is owned 35 % by Mr. Farkhad Aliyev and the Company has 65 % treasury shares. The shareholders of Petrochem Performance Products LLC are Petrochem Group LLC and Champion X Azerbaijan LLC. Petrochem Performance Product LLC was established under an agreement. As per the agreements of both companies, all the shareholders have right to appoint equal directors. As the Petrochem Group LLC holds more than 50% of the ordinary shares and voting rights in Petrochem Performance products LLC and also managing and controlling day to day operations, the management has assessed its involvement in these subsidiaries in accordance with IFRS 10's control definition and guidance and it has concluded that the control rests with the Petrochem Group LLC.

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

4 Material accounting policy information (continued)

4.17 Significant management judgement in applying accounting policies (continued)

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Group's future taxable income against which the deductible temporary differences can be recognized. In addition, significant judgement is required in assessing the impact of any legal or economic limits or un-certainties.

4.18 Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may substantially be different.

Impairment of non-financial assets

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results.

These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Group's assets within the next financial year. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets to the Group. The carrying amounts are analyzed in in note 5. Actual results, however, may vary due to technical or other obsolescence.

Useful lives of intangible assets

Management reviews the useful lives of intangible assets at each reporting date, based on the expected utility of the assets to the Group. The carrying amounts are analyzed in note 6.

Inventories

Inventories are measured at the lower of cost or net realizable value. Cost is estimated based on allocation mechanism. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. The Group review its inventory to assess loss on account of obsolescence on a regular basis. In determining whether allowance for obsolescence should be recognized in the consolidated statement of comprehensive income, the Group make judgments as to whether there is any observable data indicating that there is any future recoverability of an item and the net realizable value for such item.

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

5 Property, plant, equipment and right-of-use assets

	Land USD	Buildings USD	Plant, machinery and equipment USD	Motor vehicles USD	Office equipment USD	Right-of-use assets USD	Total USD
Cost							
At 1 January 2023	2,236,872	1,121,758	64,300	1,799,882	518,151	146,341	5,887,304
Additions	-	21,809	40,468	238,357	4,676	107,160	412,470
At 31 December 2023	2,236,872	1,143,567	104,768	2,038,239	522,827	253,501	6,299,774
Accumulated depreciation							
At 1 January 2023	-	583,584	57,482	1,286,256	399,966	80,894	2,408,182
Charge for the year	-	37,607	23,670	147,547	23,333	47,825	279,982
At 31 December 2023	-	621,191	81,152	1,433,803	423,299	128,719	2,688,164
Net carrying amount							
At 31 December 2023	2,236,872	522,376	23,616	604,436	99,528	124,782	3,611,610

The Group has recorded lease liabilities as per IFRS 16 'Leases' at the present value of remaining lease payments. The Group has recorded right-of-use assets equal to the lease liabilities. For further detail please refer to note 13.

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

5 Property, plant, equipment and right-of-use assets (continued)

Cost	Land USD	Buildings USD	Plant, machinery and equipment USD	Motor vehicles USD	Office equipment USD	Right-of-use assets USD	Total USD
At 1 January 2022	2,236,872	1,104,916	64,300	1,780,909	500,169	356,279	6,043,445
Additions	-	16,842	-	32,944	19,243	60,299	129,328
Disposals	-	-	-	(11,765)	-	(216,266)	(228,031)
Disposal of a subsidiary	-	-	-	(2,206)	(1,261)	(53,971)	(57,438)
At 31 December 2022	2,236,872	1,121,758	64,300	1,799,882	518,151	146,341	5,887,304
Accumulated depreciation							
At 1 January 2022	-	540,016	45,565	1,236,231	351,835	210,199	2,383,846
Charge for the year	-	43,568	11,917	52,597	48,852	29,268	186,202
Disposals	-	-	-	(528)	-	(129,760)	(130,288)
Disposal of a subsidiary	-	-	-	(2,044)	(721)	(28,813)	(31,578)
At 31 December 2022	-	583,584	57,482	1,286,256	399,966	80,894	2,408,182
Net carrying amount							
At 31 December 2022	2,236,872	538,174	6,818	513,626	118,185	65,447	3,479,122

In the opinion of management, there has been no impairment in carrying value of the property, plant and equipment of the Group as at 31 December 2023 (2022: Nil).

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

5 Property, plant, equipment and right-of-use assets (continued)

Depreciation charged to consolidated statement of comprehensive income is as follows:

	2023	2022
	USD	USD
Cost of sales (note 16)	91,739	60,805
Administrative and general expenses (note 17)	188,243	125,397
	<u>279,982</u>	<u>186,202</u>

6 Intangible assets

	Software USD	License USD	Total USD
Cost			
At 1 January 2023	11,027	12,623	23,650
Additions	600	-	600
At 31 December 2023	<u>11,627</u>	<u>12,623</u>	<u>24,250</u>
Accumulated amortization			
At 1 January 2023	4,253	5,661	9,914
Charge for the year	738	696	1,434
At 31 December 2023	<u>4,991</u>	<u>6,357</u>	<u>11,348</u>
Net carrying amount			
At 31 December 2023	<u>6,636</u>	<u>6,266</u>	<u>12,902</u>
Cost			
At 1 January 2022	11,027	12,623	23,650
At 31 December 2022	<u>11,027</u>	<u>12,623</u>	<u>23,650</u>
Accumulated amortization			
At 1 January 2022	3,833	4,887	8,720
Charge for the year	420	774	1,194
At 31 December 2022	<u>4,253</u>	<u>5,661</u>	<u>9,914</u>
Net carrying amount			
At 31 December 2022	<u>6,774</u>	<u>6,962</u>	<u>13,736</u>

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

7 Inventories

	2023	2022
	USD	USD
Packing materials	90,143	84,522
Finished goods	1,839,638	2,099,745
Others	140,374	138,084
	<u>2,070,155</u>	<u>2,322,351</u>

8 Trade and other receivables

	2023	2022
	USD	USD
Financial assets		
Trade receivables	2,786,438	2,752,961
Less: Allowance for impairment loss (ECL)	(1,507,507)	(1,333,808)
Trade receivables, net	<u>1,278,931</u>	<u>1,419,153</u>
Advances to employees	<u>3,134</u>	<u>77</u>
	<u>1,282,065</u>	<u>1,419,230</u>
Non-financial assets		
Prepayment and deposits	-	130,732
Tax receivables	-	86,006
	<u>-</u>	<u>216,738</u>
Total trade and other receivables	<u><u>1,282,065</u></u>	<u><u>1,635,968</u></u>

The following table show reconciliations from the opening to the closing balance of the allowance for impairment loss.

	2023	2022
	USD	USD
Balance at 1 January	1,333,808	1,360,855
Charge of impairment loss for the year	173,699	6,998
Written off during the year	-	(34,045)
Balance at 31 December	<u>1,507,507</u>	<u>1,333,808</u>

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

9 Related parties

The Group in the normal course of business carries on business with other enterprises that fall within the definition of a related party contained in IFRS. These transactions are carried out in normal course of the business and are measured at exchange amounts, being the amounts agreed by both parties.

The related parties of the Group include its key management personnel and entities under common control as described below. Details of related party transactions entered into during the year are set as following.

Transactions with key management personnel

The compensation of directors and other key members of management of the Group during the year were as follows:

	2023	2022
	USD	USD
Short-term employee benefits		
- Salaries and other benefits	373,925	206,338

Transactions with related parties

	2023	2022
	USD	USD
Payment to NCI on reduction of subsidiary's share capital	(735,000)	-
Revenue	4,258,951	3,974,135
Dividend	(860,418)	(1,037,106)

Amounts due from a related party

	2023	2022
	USD	USD
Champion X Azerbaijan LLC	254,312	515,782
	254,312	515,782

Loan from a related party

	2023	2022
	USD	USD
Loan from a shareholder – Mr. Farkhad Aliyev	23,824	23,824
	23,824	23,824

The loan is interest free and is payable on demand.

10 Cash and cash equivalents

	2023	2022
	USD	USD
Cash on hand	7,944	1,917
Cash at banks	2,164,041	1,855,556
VAT deposit	23,241	44,005
Less: Allowance for impairment loss	(43,357)	(23,565)
	2,151,869	1,877,913

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

10 Cash and cash equivalents (continued)

The following table show reconciliations from the opening to the closing balance of the allowance for impairment loss.

	2023	2022
	USD	USD
Balance at January 1,	23,565	15,604
Charge of impairment loss for the year	19,792	7,961
Balance at December 31,	43,357	23,565

Cash and cash equivalents for consolidated statement of cash flows include the following:

	2023	2022
	USD	USD
Cash on hand	7,944	1,917
Cash at banks	2,164,041	1,855,556
	2,171,985	1,857,473

11 Charter capital and treasury shares

Share capital of the Company consists of fully paid ordinary shares of 100 with a par value of AZN 64,000 (USD 39,648) (2022: AZN 64,000) each. In financial year 2021, the Company bought back its own shares. These shares were bought back for a consideration of USD 5,000,000. These shares have been classified as treasury shares.

	2023	2022
	USD	USD
Total capital issued and fully paid at 31 December	3,964,806	3,964,806

	2023	2022	2023	2022
	Percentage (%)	Percentage (%)	USD	USD
Shareholder				
Mr. Farkhad Aliyev	35.00	35.00	1,387,682	1,387,682
Petrochem Group LLC- treasury shares	65.00	65.00	2,577,124	2,577,124
	100.00	100.00	3,964,806	3,964,806

During the year, the Group declared and paid dividend of USD 860,418 (2022: USD 1,037,106). During the current year, the share capital of subsidiary has been reduced, and the Group paid an amount of USD 735,000 to non-controlling interest.

12 Borrowings

	2023	2022
	USD	USD
Non-current		
Pasha Bank OJSC	1,376,880	2,666,317
	1,376,880	2,666,317
Current		
Pasha Bank OJSC	1,289,587	1,209,008
Accrued interest	5,237	6,997
	1,294,824	1,216,005
Total borrowings	2,671,704	3,882,322

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

13 Lease liabilities (continued)

	Within 1 year	Between 1 to 5 years	After 5 years	Total
31 December 2022	USD	USD	USD	USD
Minimum lease payments	41,365	45,741	-	87,106
Future finance cost	(6,795)	(6,036)	-	(12,831)
Present value of minimum lease payments	34,570	39,705	-	74,275

14 Trade and other payables

	2023 USD	2022 USD
Financial liabilities		
Trade payables	1,348,066	1,438,216
Payables to employees	159,855	118,931
	<u>1,507,921</u>	<u>1,557,147</u>
Non-financial liabilities		
Taxes payable	407,978	142,214
Other payables	231,336	25,171
	<u>639,314</u>	<u>167,385</u>
Total trade and other payables	<u>2,147,235</u>	<u>1,724,532</u>

15 Revenue

	2023 USD	2022 USD
Sale of goods	9,041,565	10,644,115
Rendering of services	1,966,803	1,659,517
	<u>11,008,368</u>	<u>12,303,632</u>

The Company's geographical market is Azerbaijan and Kazakhstan. All sales of goods and services are rendered in Azerbaijan and Kazakhstan. Based on the contractual arrangement control of goods is transferred, and performance obligations are satisfied at a point in time when the goods are dispatched to the customers. In case of service revenue performance obligation is satisfied and revenue is recognized over the time.

16 Cost of sales

	2023 USD	2022 USD
Cost of goods sold	6,042,803	6,700,879
Cost of services	347,244	607,890
Salaries and other benefits	614,750	575,775
Depreciation expense (note 5)	91,739	60,805
	<u>7,096,536</u>	<u>7,945,349</u>

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

17 Administrative and general expenses

	2023	2022
	USD	USD
Salaries and other benefits	775,882	711,976
Legal and professional expenses	268,168	339,624
Depreciation expense (note 5)	188,243	125,397
Provision for trade receivables (ECL)	173,699	6,998
Repair and maintenance expenses	71,368	48,641
Security expenses	67,341	54,825
Technical support service	48,560	27,815
Other staff related costs	35,826	24,147
Utility expenses	28,772	26,839
Bank charges	27,411	39,977
Insurance expenses	26,818	28,739
Office and printing expenses	25,360	11,759
Rental expenses	20,617	42,248
Communication expenses	20,124	18,792
Provision for cash at banks	19,792	7,961
Advertising expense	16,065	3,201
Tax expenses	13,051	27,748
Amortization of intangible assets	1,434	1,194
Other expenses	245,737	863,771
	<u>2,074,268</u>	<u>2,411,652</u>

18 Other income – net

	2023	2022
	USD	USD
Income from rent & services	948,565	817,788
Income arising on termination of lease contract	-	23,381
	<u>948,565</u>	<u>841,169</u>

Income from rent & services constitutes income arising from using various facilities of the group like warehouse, storage of inventory etc. by the other parties.

19 Finance costs

	2023	2022
	USD	USD
Interest expense on bank loan	216,622	293,651
Interest expense on lease liabilities	18,727	11,670
	<u>235,349</u>	<u>305,321</u>

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

20 Taxation

Deferred tax asset

During the year ended 31 December 2023 and 2022, Azerbaijan's tax rate for companies' profits was 20%. The tax rate is expected to remain the same for the following fiscal year. Financial numbers of these non-statutory consolidated financial statements may not reconcile with tax returns as these are prepared for management's internal purposes. Deferred taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

	2023	2022
	USD	USD
Deferred tax assets as at 1 January	258,440	260,767
Deferred tax income/(expense)	75,794	(2,327)
Deferred tax asset as at 31 December	334,234	258,440

The deferred tax asset as at reporting date is as follows:

	2023	2022
	USD	USD
Deductible temporary difference:		
Property, plant, equipment and right-of-use assets	(3,195)	(83,524)
Intangible assets	(1,416)	(5,415)
Trade receivables	1,507,509	1,333,812
Cash at banks	43,357	23,565
Lease liabilities	124,916	23,761
Net deductible temporary differences	1,671,171	1,292,199
Deferred tax asset at 20% (2022: 20%)	334,234	258,440

Income tax expenses

The major components of tax expense and the reconciliation of the expected tax expense based on the domestic effective tax rate of the Group on individual basis at 20% (2022: 20%) and the reported tax expense in profit or loss are as follows:

	2023	2022
	USD	USD
Income tax expense	(684,079)	(675,434)
Deferred tax income/(expense)	75,794	(2,327)
	(608,285)	(677,761)
	2023	2022
	USD	USD
Profit for the year before tax	2,554,811	1,587,259
Domestic effective tax rate	20%	20%
Theoretical tax expense	(510,962)	(317,452)

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

20 Taxation (continued)

Non-deductible items

Adjustment	(173,117)	(357,982)
Income tax expense	(684,079)	(675,434)
Tax effect of temporary differences	75,794	(2,327)
Income tax expense	(608,285)	(677,761)

21 Commitments, contingencies and operational risk

Capital commitments

The Group has no capital commitments as at 31 December 2023 (2022: Nil).

Contingent liabilities

The Group has no major contingencies and commitments at 31 December 2023 (2022: Nil).

Guarantees issued on behalf of the Group

Pasha Bank has issued guarantees of USD 16,827 (2022: USD 13,756). on behalf of the Group as at 31 December 2023.

Business environment and regulatory environment

The Group's main operations are conducted in the Azerbaijan Republic. Azerbaijan continues economic reforms and development of its legal, tax, and regulatory framework to strengthen and diversify the economy. In this respect, Azerbaijan endorsed strategic road maps for development of national economy and main economic sectors in 2016. Legislation including tax, currency fluctuation and customs legislations within the Azerbaijan Republic is changing rapidly. The future economic direction of the Azerbaijan Republic is largely dependent upon the implementation of economic, financial, legislative and monetary measures undertaken by the government. The Group's consolidated financial position will continue to be affected by developments in Azerbaijan, however; the Group does not believe that these contingencies, as related to its operation, are any more significant than those of similar enterprises in the Azerbaijan Republic. The Group management is closely watching these developments in current environment and taking appropriate necessary actions to support the sustainability and development of Group's business in foreseeable future. The accompanying consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the period when they become known and estimable.

Taxation

Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed for additional taxes, penalties and interest.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Management believes that its interpretation of the relevant legislation as at 31 December 2023 is appropriate and that the Group's tax, and currency positions will be sustained.

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

22 Categories of financial assets and liabilities

The carrying amounts presented in the consolidated statement of financial position relate to the following categories of financial assets and financial liabilities:

Financial assets	Notes	2023	2022
Financial assets measured at amortized cost:		USD	USD
Current:			
Trade and other receivables	8	1,282,065	1,419,230
Amounts due from related parties	9	254,312	515,782
Cash and cash equivalents	10	2,151,869	1,877,913
		<u>3,688,246</u>	<u>3,812,925</u>
Financial liabilities			
Financial liabilities measured at amortized cost:			
Non-current:			
Borrowings	12	1,376,880	2,666,317
Lease liabilities	13	79,048	39,705
Current:			
Borrowings	12	1,294,824	1,216,005
Lease liabilities	13	45,868	34,570
Trade and other payables	14	1,507,921	1,557,147
Loan from a related party	9	23,824	23,824
		<u>4,328,365</u>	<u>5,537,568</u>

See note 4.7 for a description of the accounting policies for each category of financial instruments. A description of the financial instrument risk of the Group, including risk management objectives and policies is given in note 23. Information relating to fair values is presented in note 24.

23 Financial instrument risk

Risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The financial assets and liabilities of the Group by category are summarized in note 22. The main types of risks are market risk, credit risk and liquidity risk.

The risk management of the Group is coordinated in close cooperation with the directors of the Group and focuses on actively securing the short to medium term cash flows by minimizing the potential adverse effects on the performance of the Group through internal risk reports which analyze by degree and magnitude of risks. The Group does not actively engage in the trading of financial assets for speculative purposes nor do they write options. The most significant financial risks to which the Group is exposed are described below.

23.1 Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group are exposed to market risk through its use of financial instruments and specifically to currency risk and interest rate risk, which result from both its operating and investing activities.

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

23 Financial instrument risk (continued)

23.1 Market risk (continued)

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Exposures to currency exchange rates arise from the Group' transactions. Management of the Group' does not enter into futures agreements to hedge its currency risk due to the immaturity of local financial markets.

	AZN	EUR	GBP
Financial assets			
Trade and other receivables	1,282,065	-	-
Amounts due from a related party	254,312	-	-
Cash and cash equivalents	118,057	930	389
	<u>1,654,434</u>	<u>930</u>	<u>389</u>
Financial liabilities			
Lease liabilities	124,916	-	-
Trade and other payables	1,507,921	-	-
Loan from a related party	23,824	-	-
	<u>1,656,661</u>	<u>-</u>	<u>-</u>
Open position	<u>(2,227)</u>	<u>930</u>	<u>389</u>

	AZN	EUR	Others
Financial assets			
Trade and other receivables	1,419,230	-	-
Amounts due from a related party	515,782	-	-
Cash and cash equivalents	1,640,957	-	54,692
	<u>3,575,969</u>	<u>-</u>	<u>54,692</u>
Financial liabilities			
Lease liabilities	74,275	-	-
Trade and other payables	1,557,147	-	-
Loan from a related party	23,824	-	-
	<u>1,655,246</u>	<u>-</u>	<u>-</u>
Open position	<u>1,920,723</u>	<u>-</u>	<u>54,692</u>

The following table details the Group' sensitivity to a 5% increase and decrease in the USD against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the USD strengthens 5% against the relevant currency. For a 5% weakening of the USD against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

23 Financial instrument risk (continued)

23.1 Market risk (continued)

Foreign currency risk (continued)

	Profit for the year		Equity	
	2023	2022	2023	2022
	USD	USD	USD	USD
Strengthening USD 5% / (5%)	111	(96,036)	89	(76,829)
Weakening USD 5% / (5%)	(111)	96,036	(89)	76,829

Interest rate risk

Interest rate risk is the risk that the future cash flow of the financial instruments will fluctuate because of the changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. Management of the Group does not enter into future agreement to hedge its interest rate risk. However, these are monitored on regular basis and corrective measures initiated wherever required. All the borrowings and lease liabilities are on fixed interest rates; therefore, interest rate sensitivity analysis has not been disclosed.

23.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is exposed to this risk for various financial instruments, for example by granting credit terms to customers. The maximum exposure of the Group to credit risk is limited to the carrying amount of financial assets recognized at the reporting date, as summarized below:

	2023	2022
	USD	USD
Classes of financial assets - carrying amounts:		
Trade and other receivables (note 8)	1,282,065	1,419,230
Amounts due from a related party (note 9)	254,312	515,782
Cash at banks, net (excluding cash on hand) (note 10)	2,143,925	1,875,996
Total carrying amount	3,680,302	3,811,008

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by Group and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The policy of the Group is to deal only with creditworthy counterparties.

The Group uses an allowance matrix to measure the ECL of trade receivables from individual costumers, which comprise a very large number of small balances. The Group has established a provision model and has used average default rates as per the best estimate of management for the financial assets of similar credit risk profile. Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposure. The Group consider that cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. To manage its risk exposure, the Group places its cash with reputable banks. The Group consider their balance due from related parties to be fully recoverable. These balances neither past due nor impaired.

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

23 Financial instrument risk (continued)

23.3 Liquidity risk

Liquidity risk also referred to as funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Group maintains sufficient cash balances and monitors liquidity requirements on a regular basis and the management ensures that sufficient funds are available to meet any future commitments. The Group is also well supported by its related parties for the funding of long-term liquidity needs. The table below summarizes the maturity profile of the Group's financial liabilities:

	Range of interest rate per annum	Within 1 year AZN	1 to 5 years AZN	Over 5 years AZN	Total AZN
31 December 2023					
Borrowings	6.5%	1,294,824	1,376,880	-	2,671,704
Lease liabilities	17.82%	45,868	79,048	-	124,916
Trade and other payable		1,507,921			1,507,921
Loan from a related party		23,824	-	-	23,824
		<u>2,872,437</u>	<u>1,455,928</u>	<u>-</u>	<u>4,328,365</u>
31 December 2022					
Borrowings	6.5%	1,216,005	2,666,317	-	3,882,322
Lease liabilities	17.82%	34,570	39,705	-	74,275
Trade and other payable		1,557,147	-	-	1,557,147
Loan from a related party		23,824	-	-	23,824
		<u>2,831,546</u>	<u>2,706,022</u>	<u>-</u>	<u>5,537,568</u>

The above amounts reflect the carrying values of the liabilities at the reporting date.

24 Fair value measurement

Assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All the financial assets and liabilities of the Group are carried at amortized cost and none of the non-financial assets and liabilities have been fair valued, so fall under level 3. Therefore, the fair value hierarchy disclosure which requires a three-level category of fair value is not disclosed because it does not have significant disclosure impact to the consolidated financial statements.

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

25 Capital management policies and procedures

The capital management objectives of the Group are:

- to ensure the ability of the Group to continue as a going concern; and
- to provide an adequate return to shareholders by pricing products commensurately with the level of risk.

The Group monitor capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the consolidated statement of financial position. The Group sets the amount of capital in proportion to its overall financing structure. The Group manage the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders and return capital to shareholders. There have been no changes in the strategy for capital maintenance or externally imposed capital requirements from the previous year. Capital for the reporting periods is summarized as follows:

	2023 USD	2022 USD
Total equity	1,259,469	383,288
Less Cash and cash equivalents (note 10)	(2,151,869)	(1,877,913)
Capital	(892,400)	(1,494,625)
Total equity	1,259,469	383,288
Borrowings (note 12)	2,671,704	3,882,322
Overall financing	3,931,173	4,265,610
Capital-to-overall financing ratio	-23%	-35%

26 Disposal of a subsidiary while control is lost

During the prior year, Petrochem Kazakhstan LLP was disposed-off on September 8, 2022, however there were no operation in this company since January 2022. The Company lost control of this company for zero consideration.

	2022 USD
Total consideration	Nil
Derecognized amounts of net assets	
Property and equipment	25,860
Inventories	529,622
Trade and other receivables	20,513
Cash and cash equivalents	123
Total assets	576,118
Lease liabilities	(30,271)
Trade and other payables	(842,818)
Total liabilities	(873,089)
Net assets disposed off	(296,971)
Less: non-controlling interest derecognized	665,945
Loss on disposal	368,974

Petrochem Group LLC and Petrochem Performance Products LLC
Consolidated financial statements

Notes to the consolidated financial statements
For the year ended 31 December 2023

27 Events after the reporting date

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization of these consolidated financial statements.