

**AL DAWAA MEDICAL SERVICES COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**AL DAWAA MEDICAL SERVICES COMPANY**  
**(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2023**

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## KPMG Professional Services

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P.O. Box 4803  
Al Khobar, 34412 - 3146  
Kingdom of Saudi Arabia  
Commercial Registration No 2051062328

Headquarters in Riyadh

## كي بي إم جي للاستشارات المهنية

الطابق ١٦، برج البرغش  
٦١٨٩ طريق الأمير تركي، الكورنيش  
ص.ب. ٤٨٠٣  
الخبر ٣٤٤١٢ - ٣١٤٦  
المملكة العربية السعودية  
سجل تجاري رقم ٢٠٥١٠٦٢٣٢٨

المركز الرئيسي في الرياض

# Independent auditor's report

To the Shareholders of Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## Opinion

We have audited the consolidated financial statements of Al Dawaa Medical Services Company ("the Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") as 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 is endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

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

KPMG Professional Services, a professional closed joint stock company registered in the Kingdom of Saudi Arabia with a paid-up capital of SAR 40,000,000 (previously known as "KPMG Al Fozan & Partners Certified Public Accountants") and a non-partner member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

كي بي إم جي للاستشارات المهنية شركة مهنية مساهمة مغلقة، مسجلة في المملكة العربية السعودية، رأسمالها (٤٠٠٠٠٠٠٠٠) ريال سعودي مدفوع بالكامل، المسماة سابقاً "شركة كي بي إم جي الفوزان وشركاه محاسبون ومراجعون قانونيون". وهي عضو غير شريك في الشبكة العالمية لشركات كي بي إم جي المستقلة والتابعة لـ كي بي إم جي العالمية المحدودة، شركة انجليزية محدودة بضمان. جميع الحقوق محفوظة.

Commercial Registration of the headquarters in Riyadh is 1010425494.



# Independent auditor's report

To the Shareholders of Al Dawaa Medical Services Company (A Saudi Joint Stock Company) (Continued)

## Key Audit Matters (continued)

### Existence and valuation of inventories

Refer to Notes 3 for the accounting policy of inventories, Note 4.2 for the disclosure of estimates and judgements related to inventories and Note 10 for the related disclosure in the accompanying consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Inventories as at 31 December 2023 amounted to SR 1.3 billion representing 65% of current assets of the Group which is net of provision for slow moving inventories amounting to SR 10.6 million.</p> <p>Inventories are stated at the lower of cost and net realisable value and a provision is made by the Group, where necessary, for expired and obsolete inventories. Management determines provision for inventories based on the comparison of carrying value of inventory with net realisable value. In assessing it, management considers nature of inventories, ageing profile, obsolescence risk and their expiry based on historic trends and other qualitative factors.</p> <p>The Group has cyclical inventory count system in place to conduct the stock count in warehouses and pharmacies throughout the year.</p> <p>The Group's significant purchases are covered under the agreement with certain vendors where the Group is able to return the expired inventory.</p> <p>We considered it to be a key audit matter due to:</p> <ul style="list-style-type: none"> <li>the Group deals with large number of inventory items at multiple locations with high volume of daily transactions at multiple locations which increase the risks associated with inventory; and</li> <li>significant judgements made by the management in assessing the level of provisions required as of year end includes assessment of inventory levels in relation to revenue for the period in consideration and estimated future sales to clear this inventory.</li> </ul>	<p>We performed the following audit procedures to address the key audit matter:</p> <ul style="list-style-type: none"> <li>obtained an understanding of and assessed the design and testing implementation of management's controls designed to identify expired and / or obsolete inventories;</li> <li>attended sample of inventory counts and performed sample counts at a number of the Group's pharmacies and warehouses;</li> <li>assessed the effectiveness of the company's procedures for conducting physical inventory counts, including the design and implementation of controls over the counting process to ensure accuracy and completeness;</li> <li>assessed the assumptions made by Group management, and particularly the key assumption that current provision levels are consistent with historical pattern, in assessing stock obsolescence provisions through an analysis of inventory items by category and age as well as the level of inventory write downs in these categories during the year;</li> <li>assessed the reasonableness of the assumptions used in estimating the provision including assessing of accuracy and completeness of the key inputs with the underlying supports;</li> <li>checked on sample basis purchase agreements with certain vendors for the Group's entitlement to return the expired or obsolete inventory;</li> <li>performed net realisable value testing on a sample basis by tracing subsequent selling prices adjusted with expected costs necessary to make sales and compared with carrying value of inventory; and</li> <li>assessed the adequacy of related disclosure included in the consolidated financial statements of the Group.</li> </ul>

# Independent auditor's report

To the Shareholders of Al Dawaa Medical Services Company (A Saudi Joint Stock Company) (Continued)

## Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2022, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 1 Ramadan 1444H corresponding to 23 March 2023G.

## Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## 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 IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and Company's By-laws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, 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 scepticism throughout the audit. We also:

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

# Independent auditor's report

To the Shareholders of Al Dawaa Medical Services Company (A Saudi Joint Stock Company) (Continued)

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

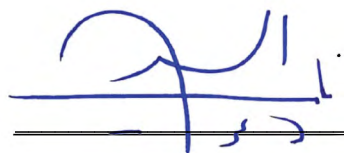
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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, then we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Al Dawaa Medical Services Company ("the Company") and its subsidiary ("the Group").

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

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

### For KPMG Professional Services



**Nasser Ahmed Al Shutairy**  
License No: 454



Al Khobar, 11 Ramadan 1445H  
Corresponding to: 21 March 2024G



**AL DAWAA MEDICAL SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2023

(Expressed in Saudi Riyals, unless otherwise stated)

	Note	31 December 2023	31 December 2022
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	6	994,861,137	941,764,995
Right-of-use assets	7	1,475,826,600	1,586,284,268
Intangible assets	8	21,041,323	19,804,185
Investment in unconsolidated subsidiaries		204,739	204,739
Equity instruments designated at fair value through other comprehensive income (FVOCI)	9	208,797,334	162,226,035
<b>Total non-current assets</b>		<b>2,700,731,133</b>	<b>2,710,284,222</b>
<b>Current assets</b>			
Inventories	10	1,309,662,210	1,081,511,991
Trade receivables	11	447,171,699	318,490,456
Prepayments and other current assets	12	192,737,718	245,824,593
Amounts due from related parties	30(c)	2,167,957	879,005
Right of return assets	13	693,262	814,132
Cash and cash equivalents	14	54,323,191	138,968,953
<b>Total current assets</b>		<b>2,006,756,037</b>	<b>1,786,489,130</b>
<b>Total Assets</b>		<b>4,707,487,170</b>	<b>4,496,773,352</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	15.1	850,000,000	850,000,000
Statutory reserve	15.2	59,459,361	59,459,361
Fair value reserve of equity instruments at FVOCI		24,856,826	(63,699,474)
Retained earnings		378,688,565	249,427,948
<b>Total equity</b>		<b>1,313,004,752</b>	<b>1,095,187,835</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Lease liabilities	7	1,307,680,985	1,374,164,408
Term loans	16	140,416,666	277,083,332
Employees' benefits	17	150,351,408	132,058,361
<b>Total non-current liabilities</b>		<b>1,598,449,059</b>	<b>1,783,306,101</b>
<b>Current liabilities</b>			
Refund liabilities	13	31,516,870	16,723,875
Trade and other payables	19	821,512,754	534,119,445
Amounts due to related parties	30(d)	50,932,286	40,927,390
Current portion of lease liabilities	7	184,484,573	203,106,173
Current portion of term loans	16	161,666,668	122,916,668
Contract liabilities	21	22,579,380	26,527,537
Short term borrowings	18	500,000,000	655,000,000
Provision for zakat	28	23,340,828	18,958,328
<b>Total current liabilities</b>		<b>1,796,033,359</b>	<b>1,618,279,416</b>
<b>Total Liabilities</b>		<b>3,394,482,418</b>	<b>3,401,585,517</b>
<b>Total equity and liabilities</b>		<b>4,707,487,170</b>	<b>4,496,773,352</b>



Chairman of Board of Directors  
Mr. Samir Abdulhadi



Chief Executive Officer  
Mr. Mohammed Saad Al-Farraj



Chief Financial Officer  
Mr. Shareef Al-Aqabawi

The accompanying notes 1 through 38 on pages 7 to 49 form an integral part of these consolidated financial statements.

**AL DAWAA MEDICAL SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
For the year ended 31 December 2023  
(Expressed in Saudi Riyals, unless otherwise stated)

	Note	2023	2022
Revenue	22	5,741,364,066	5,372,242,509
Cost of revenue	23	(3,634,745,134)	(3,352,644,016)
<b>Gross Profit</b>		<b>2,106,618,932</b>	<b>2,019,598,493</b>
Selling and distribution expenses	24	(1,500,452,178)	(1,514,415,348)
General and administrative expenses	25	(126,778,969)	(131,450,385)
Reversal of impairment on trade receivables	11	-	614,655
Other (expense) / income, net	27	(12,697,871)	1,264,973
<b>Operating Profit</b>		<b>466,689,914</b>	<b>375,612,388</b>
Fair value gain on swap derivatives		-	59,265,612
Finance cost	26	(124,286,137)	(117,008,435)
<b>Profit before Zakat</b>		<b>342,403,777</b>	<b>317,869,565</b>
Zakat expense	28	(13,180,400)	(12,420,932)
<b>Profit for the year</b>		<b>329,223,377</b>	<b>305,448,633</b>
<b>Earnings per share:</b>			
Basic and diluted earnings per share attributable to the shareholders of the Company	29	<b>3.87</b>	<b>3.59</b>



Chairman of Board of Directors  
Mr. Samir Abdulhadi



Chief Executive Officer  
Mr. Mohammed Saad Al-Farraj



Chief Financial Officer  
Mr. Shareef Al-Aqabawi

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**AL DAWAA MEDICAL SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2023

(Expressed in Saudi Riyals, unless otherwise stated)

	Note	2023	2022
<b>Profit for the year</b>		<b>329,223,377</b>	<b>305,448,633</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to the consolidated statement of profit or loss in subsequent periods:</i>			
Re-measurement gain on defined benefit obligations	17	1,922,406	9,616,416
Fair value changes in equity investment designated at FVOCI	9	99,171,134	(102,813,095)
<b>Total other comprehensive gain / (loss)</b>		<b>101,093,540</b>	<b>(93,196,679)</b>
<b>Total comprehensive income for the year</b>		<b>430,316,917</b>	<b>212,251,954</b>



Chairman of Board of Directors  
Mr. Samir Abdulhadi



Chief Executive Officer  
Mr. Mohammed Saad Al-Farraj



Chief Financial Officer  
Mr. Shareef Al-Aqabawi

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**AL DAWAA MEDICAL SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2023**  
(Expressed in Saudi Riyals, unless otherwise stated)

	Share capital	Statutory reserve	Fair value reserve of equity instruments at FVOCI	Retained earnings	Total
Balance at 1 January 2022	850,000,000	28,914,498	39,113,621	71,157,762	989,185,881
Total comprehensive income for the year					
Profit for the year	-	-	-	305,448,633	305,448,633
Other comprehensive loss for the year	-	-	(102,813,095)	9,616,416	(93,196,679)
Total comprehensive income for the year	-	-	(102,813,095)	315,065,049	212,251,954
Transfer to statutory reserve	-	30,544,863	-	(30,544,863)	-
Transactions with owners in their capacity as owners					
Dividend	-	-	-	(106,250,000)	(106,250,000)
Balance at 31 December 2022	850,000,000	59,459,361	(63,699,474)	249,427,948	1,095,187,835
Balance at 1 January 2023	850,000,000	59,459,361	(63,699,474)	249,427,948	1,095,187,835
Total comprehensive income for the year					
Profit for the year	-	-	-	329,223,377	329,223,377
Other comprehensive income for the year	-	-	99,171,134	1,922,406	101,093,540
Total comprehensive income for the year	-	-	99,171,134	331,145,783	430,316,917
Transfer of fair value reserve of equity instruments designated at FVOCI	-	-	(10,614,834)	10,614,834	-
Transfer to statutory reserve	-	-	-	-	-
Transactions with owners in their capacity as owners					
Dividend (note 20)	-	-	-	(212,500,000)	(212,500,000)
Balance at 31 December 2023	850,000,000	59,459,361	24,856,826	378,688,565	1,313,004,752

  
Chairman of Board of Directors  
Mr. Samir Abdulhadi



Chief Executive Officer  
Mr. Mohammed Saad Al-Farraj



Chief Financial Officer  
Mr. Shareef Al-Aqabawi

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**AL DAWAA MEDICAL SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2023**  
(Expressed in Saudi Riyals, unless otherwise stated)

	Note	2023	2022
<b>Cash flows from operating activities</b>			
Profit for the year		329,223,377	305,448,633
<u>Adjustments for:</u>			
Depreciation for property and equipment	6	156,140,930	152,046,757
Depreciation for right-of-use assets	7	202,075,065	196,753,467
Amortisation of intangible assets	8	5,528,689	5,721,671
Gain on derecognition due to termination of leases		4,622,208	(2,685,482)
Short term lease expense	7	1,151,980	820,772
Variable lease expense	7	7,222,412	5,321,170
Write off of property and equipment		5,784,909	7,835,876
Provision for employees' benefits	17	20,736,286	23,615,931
Gain on disposal of property and equipment		(1,102,683)	(3,007,982)
Finance cost	26	124,286,137	117,008,435
Zakat expense	28	13,180,400	12,420,932
Fair value gain on swap derivatives liabilities			(51,485,244)
<u>Changes in:</u>			
Inventories		(228,040,219)	253,253,579
Trade receivables		(128,681,243)	(85,829,247)
Prepayments and other current assets		53,086,875	15,490,905
Amounts due from related parties		(1,288,952)	1,414,734
Right of return assets		120,870	165,069
Refund liabilities		14,792,995	14,538,482
Trade and other payables		288,869,879	3,079,125
Amounts due to related parties		10,004,896	(41,658,691)
Contract liabilities		(3,948,157)	(14,018,453)
<b>Cash generated from operating activities</b>		<b>873,766,654</b>	<b>916,250,439</b>
Short term lease payments	7	(1,151,980)	(820,772)
Variable lease payments	7	(7,222,412)	(5,321,170)
Settlement for termination of lease contracts		(4,972,961)	(843,300)
Interest paid		(119,385,187)	(111,863,302)
Employees' benefits paid		(6,490,387)	(12,434,622)
Zakat paid	28	(8,797,900)	(7,453,528)
<b>Net cash generated from operating activities</b>		<b>725,745,827</b>	<b>777,513,745</b>
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	6	(216,847,332)	(283,028,956)
Proceeds from disposal of property and equipment		2,818,034	4,833,132
Additions to intangible assets	8	(6,765,827)	(4,529,456)
Proceeds from disposal of equity instruments designated at FVOCI		52,599,834	-
<b>Net cash used in investing activities</b>		<b>(168,195,291)</b>	<b>(282,725,280)</b>
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings		1,520,000,000	3,059,250,000
Repayments of short-term borrowings		(1,675,000,000)	(3,504,250,000)
Repayments of long-term loans		(127,916,666)	-
Proceeds from long-term loans		30,000,000	400,000,000
Principal elements of lease payments		(176,371,667)	(195,306,621)
Dividend paid		(212,907,965)	(105,842,034)
<b>Net cash used in financing activities</b>		<b>(642,196,298)</b>	<b>(346,148,655)</b>



**AL DAWAA MEDICAL SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**  
For the year ended 31 December 2023  
(Expressed in Saudi Riyals, unless otherwise stated)

	Note	2023	2022
Net (decrease) / increase in cash and cash equivalents		(84,645,762)	148,639,810
Cash and cash equivalents at beginning of year		138,968,953	(9,670,857)
Cash and cash equivalents at end of year		54,323,191	138,968,953

**Significant non-cash transactions**

Additions to right-of-use assets and lease liabilities	7	119,430,225	154,159,953
Remeasurements to right-of-use assets and lease liabilities	7	6,384,945	565,900,830
Modifications to right-of-use assets and lease liabilities	7	5,651,516	91,128,107
Derecognised of right-of-use assets due to lease termination	7	27,079,400	(74,204,828)
Derecognised of lease liabilities due to lease termination	7	27,430,153	(77,733,610)
Fair value gain / (loss) on equity instruments designated at FVOCI	9	99,171,134	(102,813,095)
Transfer from inventories to property and equipment		110,000	2,952,576
Transfer of fair value reserve of equity instruments designated at FVOCI	9	10,614,834	-



Chairman of Board of Directors  
Mr. Samir Abdulhadi



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The accompanying notes 1 through 38 on pages 7 to 49 form an integral part of these consolidated financial statements.

**AL DAWAA MEDICAL SERVICES COMPANY**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2023**

**(Expressed in Saudi Riyals, unless otherwise stated)**

**1 CORPORATE INFORMATION**

Al Dawaa Medical Services Company (herein after referred as the "Company") is a Saudi Joint Stock Company. The Company was initially registered as a Limited Liability Company in the Kingdom of Saudi Arabia ("KSA") under Commercial Registration numbered 2051025701 dated 23 Ramadan 1422H (corresponding to 8 December 2001G) with branches in Khobar, Riyadh, Jeddah, and other cities across the Kingdom. The Company's registered office is located at P.O. box 4326, Al Khobar 31952, Kingdom of Saudi Arabia.

The Company is listed on Saudi Stock Exchange (Tadawul) since 14 March 2022 with a free float of 30% of the Company's share capital.

The Company and its subsidiaries listed below (collectively referred to as the "Group") are engaged in online wholesale of pharmaceutical products, pharmaceutical agents, wholesale of pharmaceutical goods, related pharmacy activities, pharmaceutical warehousing activities, retail of medical equipment and other equipment, online retailing, land transport of goods, providing delivery services via electronic platforms, managing and renting self-storage stores and manufacturing of single-use medical products and disposables.

The new Companies Law issued through Royal Decree M/132 on 1/12/1443H (corresponding to 30 June 2022) (hereinafter referred as "the Law") came into force on 26/6/1444 H (corresponding to 19 January 2023). For certain provisions of the Law, full compliance is expected not later than two years from 26/6/1444H (corresponding to 19 January 2023). The management has amended its By-laws subsequent to the year end to align with new requirements.

The Company has investment in the following subsidiaries:

Name	Country of incorporation	Equity interest %	
		2023	2022
Premier Medical Devices Manufacturing Company	Kingdom of Saudi Arabia	100%	100%
Glanzzen	United Arab Emirates	100%	100%
Al-Dawaa Medical Services Company FZCO	United Arab Emirates	100%	100%
Ronzac GmbH	Germany	100%	100%
Hollinz	Germany	100%	100%

**1.1 Subsidiaries**

**a) Premier Medical Devices Manufacturing Company**

Premier Medical Devices Manufacturing Company is engaged in manufacturing of single-use medical products, consumables, medical examination tables, surgical furniture, beds with mechanical motion additives, medical thermometers, respirators and medical anesthesia.

**b) Glanzzen**

Glanzzen is engaged in marketing activities and health care management consulting activities. Refer note 1.1.1 below.

**c) Al-Dawaa Medical Services Company FZCO**

Al-Dawaa Medical Services Company FZCO is engaged in marketing activities. Refer note 1.1.1 below.

**d) Ronzac GmbH**

Ronzac GmbH is engaged in granting marketing licenses for pharmaceutical products, consumer goods and food products. Refer note 1.1.1 below.

**e) Hollinz**

Hollinz is engaged in granting marketing licenses for pharmaceutical products, consumer goods and food products. Refer note 1.1.1 below.

**1.1.1** The Group has accounted for the investment in these subsidiaries at cost and classified as investment in unconsolidated subsidiaries as these subsidiaries have not yet commenced operations. The assets, liabilities and operations of these subsidiaries as of 31 December 2023 and for the year then ended are not material to the Group's consolidated financial statements.



**AL DAWAA MEDICAL SERVICES COMPANY**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**2 BASIS OF PREPARATION**

**2.1 Statement of compliance**

The accompanying consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

**2.2 Basis of measurement**

These consolidated financial statements are prepared under the historical cost convention, using the accruals basis of accounting, except for certain employees' benefits which are measured at present value of the defined benefit obligation using the projected unit credit method and equity investments at FVOCI which is measured at fair value.

**2.3 Functional and presentation currency**

These consolidated financial statements are presented in Saudi Riyals (SR) which is the Company's functional and Group's presentation currency.

**2.4 Basis of consolidation**

These consolidated financial statements incorporate the financial statements of the Company and its subsidiary as at the reporting date. 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
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the shareholders of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the shareholders of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Group loses control over its subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

Non-Controlling Interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. The Group and its subsidiary have the same reporting periods.

**3 MATERIAL ACCOUNTING POLICIES**

The accounting policies stated below have been consistently applied to all periods presented in these consolidated financial statements unless otherwise stated.

In addition, the Group adopted the Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of "material", rather than "significant", accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in certain instances. Refer note 5.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Property and equipment**

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in consolidated statement of profit or loss as incurred.

Depreciation is calculated from the date the item of property and equipment are available for its intended use or in respect of self-constructed assets, from the date such assets are ready for the intended use. Land and capital work in progress are not depreciated.

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

Leasehold improvements	Lower of lease term or 5 - 10 years
Motor vehicles and distribution vans	5 years
Furniture and fixtures	5 years
Office equipment	6.67 years
Building	10 - 30 years
Machinery and equipment	20 years

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised. The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

*Construction work in progress (CWIP)*

CWIP is recognized at cost less accumulated impairment, if any. CWIP is transferred to the related property and equipment when the construction or installation and related activities necessary to prepare the property and equipment for their intended use have been completed and the property and equipment are ready for operational use.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangibles assets, excluding capitalized development costs, are not capitalized and the related expenditure is recognized in the consolidated statement of profit or loss when it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

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

Softwares are amortised using straight-line method over 6.7 years. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit or loss when the asset is derecognized.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Leases**

The Group as a lessee

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

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. Currently, the Group has no contract which includes lease and non-lease component.

The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, initial direct costs, lease payments made at or before the commencement date less any lease incentives received. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position. The Group applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired.

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 rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Leases (continued)**

Variable lease payments

In case of leases which contain variable payment linked to the usage or performance of the leased assets, such payments are recognized in the consolidated statement of profit or loss.

Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to 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. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within control.

Short term leases

Short-term leases are leases with a lease term of 12 months or less. Payments for short-term leases are recognised on a straight-line basis in the consolidated statement of profit or loss.

**Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the assets recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use and 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. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing the value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate (pre-zakat) that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group's impairment calculation is based on detailed budgets and forecast calculations which are prepared for the Group as whole, as the Group considered as single CGU. These budgets and forecast calculations are generally covering a five-year period. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the budget period.

Impairment losses of continuing operations, including impairment on working capital, if applicable, are recognized in the consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset.

For assets other than above, an assessment is made at each financial year-end as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's 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. This reversal is limited such that the recoverable amount doesn't exceed what the carrying amount would have been, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit or loss.

**Government grants**

The Group receives government grants on hiring and developing of fresh Saudi workforce. Government grants are recognized at fair value when there is reasonable assurance that it will be received, and the Group will comply with the conditions associated with the grant. Government grants are recognized in the consolidated statement of profit or loss on a systematic basis over the periods in which the Group recognizes salaries expense against which the grants are intended to compensate.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Inventories**

Inventories comprise goods held for sale. Inventories are valued at the lower of cost and net realisable value using the weighted average cost basis. Directly attributable costs and rebates are included in the cost of inventories. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet, if any.

**Employees' benefits**

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and air fare that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in consolidated statement of financial position.

Employees' end of services benefits

The liability recognized in the consolidated statement of financial position in respect of the defined end of service benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method.

The net interest cost is calculated by applying the discount rate to the net balance of the defined end of service benefit obligation. This cost is included in employee benefit expense in the consolidated statement of profit or loss. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income. Remeasurements are not reclassified to profit or loss in subsequent periods. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in consolidated statement of profit or loss as past service costs.

**Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management of the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in consolidated statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

**Contingencies**

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable, are recorded in the consolidated statement of financial position under accounts payable and accruals. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. A contingent asset becomes a realized asset recordable on the consolidated statement of financial position when the realization of cash flows associated with it becomes relatively certain.



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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Zakat**

Zakat is provided in accordance with the Zakat, Tax and Customs Authority Regulations (ZATCA) in the Kingdom of Saudi Arabia. The provision is charged to the consolidated statement of profit or loss. The zakat charge is computed on the Saudi shareholders' share of the zakat base or adjusted net profit whichever is higher. Any difference in the estimate is recorded in consolidated statement of profit or loss when the final assessment is approved, at which time the provision is cleared.

**Value added tax**

Expenses and assets are recognized net of the amount of value added tax ("VAT"), except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the ZATCA, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of VAT included.
- The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

**Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Accounts receivable and equity securities are initially recognized when they are originated. All other financial instruments are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

***Financial assets***

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

***i. Initial recognition and measurement***

At initial recognition, the Group measures a financial asset (unless it is an accounts receivable without a significant financing component) at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss as incurred. Accounts receivable without a significant financing component is initially measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

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

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

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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

*Financial assets (continued)*

*ii. Subsequent measurement*

The financial assets are classified in the following measurement categories for the purpose of subsequent measurement:

- a) Those to be measured subsequently at fair value (either through other comprehensive income, or through statement of profit or loss), and
- b) Those to be measured at amortized cost.

*Financial assets at fair value*

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL. Net gains and losses, including any interest or dividend income, are recognized in consolidated statement of profit or loss. Dividends on financial assets at FVOCI are recognized as income in consolidated statement of profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

For assets measured at fair value, gains and losses are either be recorded in consolidated statement of profit or loss or other comprehensive income. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

*Financial assets at amortized cost*

Subsequent measurement of financial assets at amortized cost depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies financial assets at amortised cost based on the below:

- a) The asset is held within a business model with the objective of collecting the contractual cash flows, and
- b) The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in consolidated statement of profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

The Group's financial assets at amortized cost include trade receivables, other receivables, due from related parties and cash and cash equivalents.

Trade receivables are stated at the amortized cost, which generally correspond to face value (original invoice amount), do not bear interest, and generally have a 30 to 90 days term, less any provision for doubtful debts and impairment. An allowance for doubtful debts is made based upon Company's best estimate of expected credit losses related to those receivables. Such estimate is based on customers' financial status and historical write-off experience. Account balances are written off against such allowance after all means of collection have been exhausted and potential of recovery is remote. Bad debts written off as such are recorded in the consolidated statement of profit or loss as incurred.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

*Financial assets (continued)*

*Financial assets at amortized cost (continued)*

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. 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.

*Financial assets – Business model and assessment*

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

*Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest*

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' 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 lending risks and costs (e.g., liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers 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. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g., non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

*Financial assets (continued)*

*De-recognition of financial assets*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Group enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Impairment of financial assets*

The Group applies expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets and credit risk exposure that are debt instruments and are measured at amortized cost e.g., trade receivables, cash and banks etc.

Expected credit losses are the probability-weighted estimate of credit losses (i.e., present value of all cash shortfalls) over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that the Group expects to receive. The expected credit losses consider the amount and timing of payments and hence,

A credit loss arises even if the Group expects to receive the payment in full but later than when contractually due. The expected credit loss method requires assessing credit risk, default and timing of collection since initial recognition. This requires recognizing allowance for expected credit losses in the consolidated statement of profit or loss even for receivables that are newly originated or acquired.

Impairment of financial assets is measured as either 12 month expected credit losses or life time expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. '12 month expected credit losses' represent the expected credit losses resulting from default events that are possible within 12 months after the reporting date. 'Lifetime expected credit losses' represent the expected credit losses that result from all possible default events over the expected life of the financial asset.

Trade receivables are of a short duration, normally less than 12 months and hence the loss allowance measured as lifetime expected credit losses does not differ from that measured as 12 month expected credit losses. The Group applies simplified approach for measuring expected credit losses for trade receivables.

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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

***Financial liabilities***

The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value. Financial liabilities accounted at amortized cost like borrowings are accounted at the fair value determined based on the effective interest rate method (EIR) after considering the directly attributable transaction costs.

The financial liabilities are classified in the following measurement categories:

- a) Those to be measured as financial liabilities at fair value through profit or loss, and
- b) Those to be measured at amortized cost.

The Group classifies all financial liabilities as subsequently measured at amortized cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

The effective interest rate ("EIR") method calculates the amortized cost of a debt instrument by allocating interest charge over the relevant effective interest rate period. The effective interest rate is the rate that exactly discounts estimated future cash outflow (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. This category generally applies to borrowings and trade payables.

The Group's financial liabilities include trade and other payables, borrowings including bank overdrafts and amounts due to related parties. The Group measures financial liabilities (except derivatives) at amortized cost.

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

***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.

***Derivative financial instruments***

The Group uses derivative financial instruments (which are all interest rate swaps) to manage its exposures to interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The change in the fair value of the derivative is recognized in the consolidated statement of profit or loss. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

**Transactions and balances in foreign currency**

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in the consolidated statement of profit or loss.



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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Fair value measurement**

The Group measures financial instruments such as equity instruments designated at FVOCI and swap derivatives, at fair value at each reporting date.

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

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

The 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 by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

**Revenue recognition**

Revenue is recognized when control of the goods are transferred and rendering of services are completed to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those sold goods and rendering of services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods before transferring them to the customer. The Group generates revenue from the following sources:

**Retail**

The Group operates a chain of retail stores (pharmacies and healthcare stores) selling medicines; perfumes, cosmetics and beauty tools and other products. Revenue is recognized at the point in time when control of the asset is transferred to the customer (i.e., at the point the customer purchases the goods at the retail outlet). Payment of the transaction price is due immediately at the point in time when control of the asset is transferred to the customer. However, certain sales are through insurance and other companies. A receivable is recognized by the Group upon transfer of control as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. It is the Group's policy to sell its products to its customers with a right of return within 72 hours.

*Rights of return - retail*

However, the management concluded that the expected returns based on pattern of historical returns is deemed immaterial, accordingly the management has not accounted for it.

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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Revenue recognition (continued)**

*Loyalty points programme*

The Group operates 'Arbahi' loyalty programme which allows customers to accumulate points when they purchase products in the Group's retail stores. The points can be redeemed for discounts on future purchases. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer.

A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognized as a contract liability until the points are redeemed. Revenue is recognized upon redemption of products by the customer or when the points are expired (i.e., 12 months after the initial sale).

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed at the end of each reporting period and any adjustments to the contract liability balance are charged against revenue.

The disclosures of significant estimates and assumptions relating to the estimation of the stand-alone selling price of the loyalty points are provided in note 4.

**Wholesale**

The Group sells medicines and cosmetics to the wholesale market. Revenue is recognized when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location (delivery). Following delivery, the wholesaler has full discretion over the manner of distribution and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. A receivable is recognized by the Group when the goods are delivered to the wholesaler as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

*Variable consideration*

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the wholesale provide customers with a right to return the goods within a specified period. The Group also provides retrospective volume rebates to certain customers once the quantity of purchased during a 12 months period exceeds the threshold specified in the contract. The rights of return and volume rebates give rise to variable consideration.

The disclosures of significant estimates and assumptions relating to the estimation of variable consideration for returns and volume rebates are provided in note 4.

*Rights of return - wholesale*

The Group uses the expected value method to estimate the variable consideration given the large number of contracts that have similar characteristics. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognized as revenue. A refund liability is recognized for the goods that are expected to be returned (i.e., the amount not included in the transaction price). A right of return asset (and corresponding adjustment to cost of sales) is also recognized for the right to recover the goods from the customer.

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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Revenue recognition (continued)**

*Volume rebates*

The Group applies either the most likely amount method or the expected value method to estimate the variable consideration in the contract. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The most likely amount is used for those contracts with a single volume threshold, while the expected value method is used for those with more than one volume threshold. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognized as revenue. A refund liability is recognized for the expected future rebates (i.e., the amount not included in the transaction price).

**Logistic and transportation services**

The Group is engaged in providing transportation and logistics services. These revenues are recognised when services are rendered. All revenues of the Group are recognized over time as the services are provided. All services of the Group are delivered within kingdom of Saudi Arabia.

***Significant financing component***

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

***Contract balances***

*Contract liabilities*

A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods to the customer). Refer to accounting policies of financial liabilities under Financial instruments – initial recognition, subsequent measurement and derecognition.

***Assets and liabilities arising from rights of return***

*Right of return assets*

A right-of-return asset is recognized for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods and any potential decreases in value. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned products.

*Refund liabilities*

A refund liability is recognized for the obligation to refund some or all of the consideration received (or receivable) from a customer. The Group's refund liabilities arise from customers' right of return. The liability is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

**Cost of sales and operating expenses**

Cost of sales includes costs previously included in the measurement of the inventory that has been sold to customers. Selling and distribution expenses are those that specifically relate to salesmen, delivery vehicles, and lease of pharmacies.

Allocation of overheads between selling and distribution expenses, and general and administrative expenses, where required, is made on a consistent basis based on predetermined rates as appropriate by the Group.

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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Cost of sales and operating expenses (continued)**

*Commercial rebates*

The Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. Most of the income received from suppliers relates to adjustments to a core cost price of a product, and as such is considered part of the purchase price for that product. Sometimes receipt of the income is conditional on the Group performing specified actions or satisfying certain performance conditions associated with the purchase of the product. These include achieving agreed purchases or sales volume targets and providing promotional or marketing materials and activities or promotional product positioning. While there is no standard industry definition, these amounts receivable from suppliers in connection with the purchase of goods for resale are generally termed commercial rebates.

Commercial rebates is recognized when earned by the Group, which occurs when all obligations conditional for earning rebates have been discharged, and the rebates can be measured reliably based on the terms of the contract. Commercial rebates are recognized as a credit within cost of sales. Where the rebates earned relates to inventories which are held by the Group at period ends, the rebate is included within the cost of those inventories, and recognized in cost of sales upon sale of those inventories. Amounts due relating to commercial rebates are recognized within trade and other receivables, except in cases where the Group currently has a legally enforceable right of set-off and intends to offset amounts due from suppliers against amounts owed to those suppliers, in which case only the net amount receivable or payable is recognized.

**Earnings per share**

Basic earnings per share are calculated by dividing:

- the net income attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares, if any.

Diluted EPS is calculated by dividing the net profit attributable to ordinary shareholders of the Company (after adjusting for interest on the convertible preference shares, if any) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion, (if any) of all the dilutive potential ordinary shares into ordinary shares.

**Current / non-current classification**

The Group classifies assets and liabilities in the consolidated statement of financial position based on current/non-current classification. Asset is classified as current when it is:

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

All other assets are classified as non-current.

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**3 MATERIAL ACCOUNTING POLICIES (continued)**

**Current / non-current classification (continued)**

A liability is classified as current when:

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

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. The Group classifies all other liabilities as non-current.

**Segment information**

An operating segment in a company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. A geographical segment is associated with the provision of products or services in a specific economic environment that is subject to risks and rewards that differ from those of segments of business in economic environment.

**Dividend**

Interim dividends are recorded as liability in the period in which these are approved by the Board of directors. Final dividends are recorded in the consolidated financial statements in the period in which these are approved by the shareholders.

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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

**4.1 Judgements**

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

**Determination and allocation of transaction prices**

The Group is required to determine the transaction price in respect of each of its contracts with customers. In making such judgement the Group assess the impact of any variable consideration in the contract; due to rebates; right to return and customer loyalty programme. The Group uses the expected value method to estimate the goods that will be returned and volume rebates, because this method best predicts the amount of variable consideration to which the Group will be entitled.

For customer loyalty programme, transaction price is allocated to the product and the points on a relative stand-alone selling price basis. Management estimates the stand-alone selling price per point on the basis of the discount granted when the points are redeemed and on the basis of the likelihood of redemption, based on past experience.

The stand-alone selling price of the product sold is estimated on the basis of the retail price.



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**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)**

**4.1 Judgements (continued)**

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

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

The Group have lease contracts that include extension and termination option. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

**Component parts of property and equipment**

The Group's assets, classified within property and equipment, are depreciated on a straight-line basis over their economic useful lives. When determining the economic useful life of an asset, it is broken down into significant component parts such that each significant component part is depreciated separately. Judgement is required in ascertaining the significant components of a larger asset, and while defining the significance of a component, management considers quantitative materiality of the component part as well as qualitative factors such as difference in useful life as compared to related asset, its pattern of consumption, and its replacement cycle/maintenance schedule.

**4.2 Key sources of estimation uncertainty**

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material carrying amounts of assets and liabilities within the financial year include:

**Useful lives of property and equipment**

Management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value (if any) and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

**Impairment of non-financial assets**

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model.

The cash flows are derived from the budget and marketing terms forecast for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the growth rate used for extrapolation purposes.

#### **4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)**

##### **4.2 Key sources of estimation uncertainty (continued)**

###### **Estimates and assumptions (continued)**

###### **Long-term assumptions for employees' benefits**

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

###### **Provision for expected credit losses on trade receivables**

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

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

###### **Revenue recognition – Estimating variable consideration for returns and volume rebates**

The Group estimates variable considerations to be included in the transaction price for the wholesale with rights of return and volume rebates.

The Group has developed a statistical model for forecasting sales returns. The model uses the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

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**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)**

**4.2 Key sources of estimation uncertainty (continued)**

**Estimates and assumptions (continued)**

**Revenue recognition – Estimating variable consideration for returns and volume rebates (continued)**

The Group's expected volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will be likely entitled to rebate will depend on the customer's historical rebates entitlement and accumulated purchases to date.

The Group applied the statistical model for estimating expected volume rebates for contracts with more than one volume threshold. The model uses the historical purchasing patterns and rebates entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by the Group.

The Group updates its assessment of expected returns and volume rebates at the end of each reporting period. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and the Group's past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future.

**Revenue recognition – Estimating stand-alone selling price – Arbahi loyalty programme**

The Group estimates the stand-alone selling price of the loyalty points awarded under the Arbahi loyalty programme. The stand-alone selling price of the loyalty points issued is calculated by multiplying to the estimated redemption rate and to the monetary value assigned to the loyalty points. In estimating the redemption rate, the Group considers breakage which represents the portion of the points issued that will never be redeemed. The Group applies statistical projection methods in its estimation using customers' historical redemption patterns as the main input. The redemption rate is updated annually and the liability for the unredeemed points is adjusted accordingly. In estimating the value of the points issued, the Group considers the mix of products that will be available in the future in exchange for loyalty points and customers' preferences. The Group ensures that the value assigned to the loyalty points is commensurate to the stand-alone selling price of the products eligible for redemption (i.e., the value of each point is equivalent to the stand-alone selling price of any products eligible for redemption divided by number of points required).

As points issued under the programme expire within 12 months after the initial sale, estimates of the stand-alone selling price are not subject to significant uncertainty. As at 31 December 2023, the estimated liability for unredeemed points was SR 22.6 million (2022: SR 26.5 million).

**Fair value measurement of financial instruments**

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

**Leases - Estimating the incremental borrowing rate**

The Group cannot readily determine the interest rate implicit in the lease agreement, therefore, it uses its Incremental Borrowing Rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available, such as for subsidiaries that do not enter into financing transactions or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs, such as market interest rates when available and is required to make certain entity-specific estimates. The range of IBR used by the Group is 7.2 % - 2.5%.

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**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)**

**4.2 Key sources of estimation uncertainty (continued)**

**Estimates and assumptions (continued)**

**Commercial income (rebates from suppliers)**

Management is required to make estimates in determining the amount and timing of recognition of commercial income for some transactions with suppliers. In determining the amount of volume-related allowances recognised in any period, management estimate the probability that the Group will meet contractual target volumes, based on historical and forecast performance. There is limited estimation involved in recognising income for promotional and other allowances. Management assesses its performance against the obligations conditional on earning the income, with the income recognised either over time as the obligations are met, or recognised at the point when all obligations are met, dependent on the contractual requirements.

Commercial income is recognised as a credit within cost of sales. Where the income earned relates to inventories which are held by the Group at period ends, the income is included within the cost of those inventories, and recognised in cost of revenue upon sale of those inventories. Management views that the cost of inventories sold (which is inclusive of commercial income) provides a consistent and complete measure of the income statement impact of the overall supplier's relationships.

**Impairment of inventories**

Inventories are held at the lower of cost and net realisable value. When inventories become expired, old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Inventories which are not individually significant, but which are old or obsolete, are assessed collectively and a provision is applied according to the inventory type and the degree of ageing or obsolescence, based on historical and anticipated selling prices.

**5 STANDARDS, INTERPRETATIONS, AMENDMENTS TO EXISTING STANDARDS**

**New standards, interpretations and amendments effective in the current year**

**Material accounting policy information**

The Group also adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of "material", rather than "significant", accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in Note 3 Material Accounting Policies (2022: Significant accounting policies) in certain instances in line with the amendments.

The following are the new interpretations and amendments to the standards that are effective in the current year and which either do not give rise to significant changes or not applicable to the Group's accounting policies:

- **Amendments to IAS 8**  
The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.
- **Amendments to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction**  
These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

However, these amendments did not have an impact on the consolidated financial statement of the Group.

**New and amended IFRS Standards that are not yet effective**

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The Group does not foresee any material impact on consolidated financial statements upon the adoption of these amendments to standards.

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**5 STANDARDS, INTERPRETATIONS, AMENDMENTS TO EXISTING STANDARDS (continued)**

**New and amended IFRS Standards that are not yet effective (continued)**

- **Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants (Amendments to IAS 1)**

The amendments, as issued in 2020 and 2022, aim to clarify the requirements on determining whether a liability is current or non-current, and require new disclosures for non-current liabilities that are subject to future covenants. The amendments apply for annual reporting periods beginning on or after 1 January 2024.

- **Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)**

The amendments introduce new disclosures relating to supplier finance arrangements that assist users of the financial statements to assess the effects of these arrangements on an entity's liabilities and cash flows and on an entity's exposure to liquidity risk. The amendments apply for annual periods beginning on or after 1 January 2024.

- **Amendments to IFRS 16 – Leases on sale and leaseback**

These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.

- **Lack of Exchangeability (Amendments to IAS 21)**

Following are the new IFRS sustainability disclosure standards effective for annual periods beginning on or after 1 January 2024 subject to endorsement of the standards by SOCPA.

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**6 PROPERTY AND EQUIPMENT**

	Land	Leasehold improvements	Motor vehicles and distribution vans	Furniture and fixtures	Office equipment	Buildings	Machinery and equipment	Capital work in progress (CWIP)	Total
<b>Cost:</b>									
1 January 2023	86,844,373	851,335,822	134,768,564	403,234,539	77,084,308	226,730,385	49,529,560	37,798,572	1,867,326,123
Additions	70,887	39,806,482	11,045,398	48,796,169	4,141,048	-	398,560	112,588,788	216,847,332
Transfer from CWIP	-	74,229,407	-	8,600,741	299,954	17,310,276	-	(100,440,378)	-
Transfer to inventories	-	-	-	-	-	-	-	(110,000)	(110,000)
Disposals	-	-	(10,221,207)	-	-	-	-	-	(10,221,207)
Write-off	-	(21,896,785)	-	(6,576,725)	(452,340)	-	-	(2,830,091)	(31,755,941)
31 December 2023	86,915,260	943,474,926	135,592,755	454,054,724	81,072,970	244,040,661	49,928,120	47,006,891	2,042,086,307
<b>Accumulated depreciation:</b>									
1 January 2023	-	476,468,429	96,376,350	249,968,165	44,380,968	55,397,264	2,969,952	-	925,561,128
Charge for the year	-	63,514,055	13,795,468	53,253,484	8,086,646	15,013,969	2,477,308	-	156,140,930
Disposals	-	-	(8,505,856)	-	-	-	-	-	(8,505,856)
Write-off	-	(20,140,729)	-	(5,509,536)	(320,767)	-	-	-	(25,971,032)
31 December 2023	-	519,841,755	101,665,962	297,712,113	52,146,847	70,411,233	5,447,260	-	1,047,225,170
<b>Net book value:</b>									
At 31 December 2023	86,915,260	423,633,171	33,926,793	156,342,611	28,926,123	173,629,428	44,480,860	47,006,891	994,861,137

**6.1** The Group's buildings are constructed on land leased from third parties for long term periods.

**6.2** Capital work in progress represents costs incurred in respect of opening new pharmacies and a manufacturing facility which have not commenced operation yet. The related capital commitments are reported in note 31(a).

**6.3** In 2023, the Group sold property and equipment with a total net carrying amount of SR 1.7 million (2022: SR 1.8 million) for a cash consideration of SR 2.8 million (2022: SR 4.8 million). The net gains on these disposals amount of SR 1.1 million (2022: SR 3 million) were recognised as part of other income in the consolidated statement of profit or loss.

**6.4** During the year, the Group written off certain property and equipment with a total net carrying amount of SR 5.8 million (2022: SR 7.8 million) which were recognised as part of other expenses in the consolidated statement of profit or loss.

**6.5** Cost of fully depreciated assets as at 31 December 2023 amounted to SR 548.8 million (2022: SR 563.9 million).

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**6 PROPERTY AND EQUIPMENT (continued)**

	Land improvements	Leasehold improvements	Motor vehicles and distribution vans	Furniture and fixtures	Office equipment	Building	Tools and air-conditioners	Machinery and equipment	Capital work in progress (CWIP)	Total
Cost:										
1 January 2022	48,337,604	720,156,276	131,355,304	336,973,121	69,857,218	225,209,674	113,222,587	49,489,915	28,400,752	1,723,002,451
Additions	38,506,769	13,409,320	19,042,383	82,442,851	8,186,057	324,039	-	39,645	121,077,892	283,028,956
Transfer from CWIP	-	100,619,661	-	5,201,046	-	1,196,672	-	-	(107,017,379)	-
Disposals	-	-	(15,629,123)	-	-	-	-	-	-	(15,629,123)
Transfer to inventories	-	-	-	-	-	-	-	-	(2,952,576)	(2,952,576)
Write-off	-	(96,072,022)	-	(21,382,479)	(958,967)	-	-	-	(1,710,117)	(120,123,585)
Reclassification	-	113,222,587	-	-	-	-	(113,222,587)	-	-	-
31 December 2022	86,844,373	851,335,822	134,768,564	403,234,539	77,084,308	226,730,385	-	49,529,560	37,798,572	1,867,326,123
Accumulated depreciation:										
1 January 2022	-	415,090,109	97,429,553	227,326,827	37,143,656	41,013,533	81,108,323	494,052	-	899,606,053
Charge for the year	-	71,756,826	12,750,770	42,563,986	8,115,544	14,383,731	-	2,475,900	-	152,046,757
Disposals	-	-	(13,803,973)	-	-	-	-	-	-	(13,803,973)
Write-off	-	(91,486,829)	-	(19,922,648)	(878,232)	-	-	-	-	(112,287,709)
Reclassification	-	81,108,323	-	-	-	-	(81,108,323)	-	-	-
31 December 2022	-	476,468,429	96,376,350	249,968,165	44,380,968	55,397,264	-	2,969,952	-	925,561,128
Net book value:										
At 31 December 2022	86,844,373	374,867,393	38,392,214	153,266,374	32,703,340	171,333,121	-	46,559,608	37,798,572	941,764,995



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**6 PROPERTY AND EQUIPMENT (continued)**

The depreciation for the year has been allocated as follows:

	<b>2023</b>	2022
Cost of revenue (note 23)	<b>2,923,590</b>	-
Selling and distribution expenses (note 24)	<b>147,905,000</b>	147,194,060
General and administrative expenses (note 25)	<b>5,312,340</b>	4,852,697
	<b>156,140,930</b>	152,046,757

**7 LEASES**

The Group has lease agreements for buildings and land. The leases typically run for a period of 5 to 20 years, but may be renewed upon mutual consent of the Group and Lessor. Where practicable, the Group seeks to include extension option to provide operational flexibility. Lease terms are defined as per contract on an individual basis and contain a wide range of different terms and conditions.

The recognized right-of-use assets relate to the following types of assets:

	<b>2023</b>	2022
Buildings	<b>1,431,304,900</b>	1,538,342,052
Land	<b>44,521,700</b>	47,942,216
<b>Total right-of-use assets</b>	<b>1,475,826,600</b>	1,586,284,268

**Movement of right-of-use assets**

	<b>Buildings</b>	<b>Land</b>	<b>Total</b>
<b>1 January 2023</b>	<b>1,538,342,052</b>	<b>47,942,216</b>	<b>1,586,284,268</b>
<b>Additions</b>	<b>119,430,225</b>	-	<b>119,430,225</b>
<b>Modification</b>	<b>5,889,264</b>	<b>(237,747)</b>	<b>5,651,517</b>
<b>Remeasurements</b>	<b>(6,384,945)</b>	-	<b>(6,384,945)</b>
<b>Derecognised due to termination</b>	<b>(27,079,400)</b>	-	<b>(27,079,400)</b>
<b>Depreciation</b>	<b>(198,892,296)</b>	<b>(3,182,769)</b>	<b>(202,075,065)</b>
<b>31 December 2023</b>	<b>1,431,304,900</b>	<b>44,521,700</b>	<b>1,475,826,600</b>
	<b>Building</b>	<b>Land</b>	<b>Total</b>
1 January 2022	1,008,552,527	37,501,146	1,046,053,673
Additions	145,562,887	8,597,066	154,159,953
Modification	86,682,361	4,445,746	91,128,107
Remeasurements	565,900,830	-	565,900,830
Derecognised due to termination	(74,204,828)	-	(74,204,828)
Depreciation	(194,151,725)	(2,601,742)	(196,753,467)
31 December 2022	1,538,342,052	47,942,216	1,586,284,268

The depreciation of right-of-use assets has been allocated as follows:

	<b>2023</b>	2022
Selling and distribution expenses (note 24)	<b>197,944,999</b>	195,067,122
General and administrative expenses (note 25)	<b>4,130,066</b>	1,686,345
	<b>202,075,065</b>	196,753,467

**Lease liabilities movement**

	<b>2023</b>	2022
1 January	<b>1,577,270,581</b>	1,039,121,922
Additions	<b>119,430,225</b>	154,159,953
Modification	<b>5,651,517</b>	91,128,107
Remeasurements	<b>(6,384,945)</b>	565,900,830
Derecognised due to termination	<b>(27,430,153)</b>	(77,733,610)
Finance cost	<b>58,766,489</b>	48,687,489
Payments	<b>(235,138,156)</b>	(243,994,110)
31 December	<b>1,492,165,558</b>	1,577,270,581

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**7 LEASES (continued)**

**Maturity of lease liabilities is as follows:**

	2023	2022
Non-current portion of lease liabilities	1,307,680,985	1,374,164,408
Current portion of lease liabilities	184,484,573	203,106,173
Total lease liabilities	1,492,165,558	1,577,270,581

Following are the amounts recognised for lease liabilities and right-of-use assets in the consolidated statement of profit or loss:

	2023	2022
Depreciation on right-of-use assets	202,075,065	196,753,467
Finance cost for lease liabilities	58,766,489	48,687,489
(Loss) / gain on derecognition due to termination of leases	(4,622,208)	2,685,482
Expense relating to variable leases	7,222,412	5,321,170
Expense relating to short-term leases	1,151,980	820,772
Total amount recognised in consolidated statement of profit or loss	264,593,738	254,268,380

Amounts recognised in consolidated statement of cash flows:

	2023	2022
Total cash outflow for leases	235,138,156	243,994,110

The aggregate undiscounted repayment schedule of lease liabilities is as follows:

	2023	2022
Within one year	239,487,060	229,081,218
1-5 years	856,892,829	833,025,640
Above 5 years	653,852,576	892,360,096
Lease obligations	1,750,232,465	1,954,466,954

**8 INTANGIBLE ASSETS**

	Software	Work in progress	Total
<b>Cost:</b>			
1 January 2023	49,434,856	-	49,434,856
Additions	6,540,827	225,000	6,765,827
31 December 2023	55,975,683	225,000	56,200,683
<b>Accumulated amortization:</b>			
1 January 2023	29,630,671	-	29,630,671
Amortisation charge for the year	5,528,689	-	5,528,689
31 December 2023	35,159,360	-	35,159,360
<b>Net book value:</b>			
<b>At 31 December 2023</b>	20,816,323	225,000	21,041,323
	Software	Work in progress	Total
<b>Cost:</b>			
1 January 2022	44,905,400	-	44,905,400
Additions	4,529,456	-	4,529,456
31 December 2022	49,434,856	-	49,434,856
<b>Accumulated amortization:</b>			
1 January 2022	23,909,000	-	23,909,000
Amortisation charge for the year	5,721,671	-	5,721,671
31 December 2022	29,630,671	-	29,630,671
<b>Net book value:</b>			
<b>At 31 December 2022</b>	19,804,185	-	19,804,185

**8.1** The entire amortisation charged has been allocated to the general and administration expenses (note 25).

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**9 EQUITY INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)**

Equity instruments designated at FVOCI include investments in equity shares of listed companies. These investments were irrevocably designated at fair value through OCI as the Group considers these investments to be strategic in nature. The fair value is based on quoted market price at reporting date on the official listing in Saudi Exchange market (Tadawul). Equity instruments designated at FVOCI represent investment in the following companies:

	2023	2022
Saudi Pharmaceutical Industries and Medical Appliances Corp. ("SPIMACO")	208,797,334	126,916,035
Saudi Arabian Oil Company ("Saudi Aramco")	-	35,310,000
	<b>208,797,334</b>	<b>162,226,035</b>

The movement of investments in equity instruments designated at FVOCI was as follows:

	2023	2022
At 1 January	162,226,035	265,039,130
Investments sold during the year (note 9.1)	(52,599,835)	-
Change in fair value	99,171,134	(102,813,095)
At 31 December	<b>208,797,334</b>	<b>162,226,035</b>

**9.1** During 2023, the Group sold 1.21 million of its shares as this investment no longer coincides with the Group's investment strategy. The fair value on the date of sale was SR 52.6 million and the accumulated gain recognized in OCI of SR 10.6 million was transferred to retained earnings.

**9.2** The Group received dividends amounting to SR nil (2022: SR 3.5 million) from SPIMACO and amount of SR 0.7 million (2022: SR 1.4 million) from Saudi Aramco, totaling of amount SR 0.7 million (2022: SR 4.9 million). The received dividends were recognised as part of other income in the consolidated statement of profit or loss.

**10 INVENTORIES**

	2023	2022
Raw materials	2,762,565	-
Finished goods:		
Finished goods relating to pharmacies	1,285,492,264	1,062,929,672
Finished goods relating to distribution	23,469,270	23,711,515
	<b>1,308,961,534</b>	1,086,641,187
Spare parts	8,562,961	5,495,654
	<b>1,320,287,060</b>	1,092,136,841
Less: provision for slow moving inventory items (note 10.2)	(10,624,850)	(10,624,850)
At 31 December	<b>1,309,662,210</b>	<b>1,081,511,991</b>

**10.1** The cost of inventory recognised as expense amounted to SR 3,625.1 million (2022: SR 3,352.6 million).

**10.2** Movement on provision for slow moving inventory items during the year is as follows:

	2023	2022
1 January	10,624,850	5,339,473
Charge for the year	-	5,285,377
31 December	<b>10,624,850</b>	<b>10,624,850</b>

**10.3** Provision for inventories is based on the comparison of carrying value of inventory with net realisable value. In assessing it, management consider nature of inventories, ageing profile and their expiry based on historic trends and other qualitative factors.

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**11 TRADE RECEIVABLES**

	<b>2023</b>	2022
Trade receivables	<b>474,634,997</b>	345,953,754
Less: allowance for impairment on trade receivables (note 11.2)	<b>(27,463,298)</b>	(27,463,298)
	<b>447,171,699</b>	318,490,456

**11.1** Information relating to the Group's exposure to credit and market risk is disclosed in note 33.

**11.2** Movement on allowance for impairment on trade receivables during the year is as follows:

	<b>2023</b>	2022
1 January	<b>27,463,298</b>	28,077,953
Reversal for the year	-	(614,655)
31 December	<b>27,463,298</b>	27,463,298

**12 PREPAYMENTS AND OTHER CURRENT ASSETS**

	<b>2023</b>	2022
Advances to suppliers	<b>143,997,905</b>	213,994,834
Prepaid expenses	<b>30,721,976</b>	14,143,117
Other receivables	<b>18,017,837</b>	17,686,642
	<b>192,737,718</b>	245,824,593

**13 RIGHT OF RETURN ASSETS AND REFUND LIABILITIES**

	<b>2023</b>	2022
Right of return assets (note 13.1)	<b>693,262</b>	814,132
Refund liabilities (note 13.2)		
Arising from volume and commercial rebates	<b>30,529,811</b>	15,837,361
Arising from rights of return	<b>987,059</b>	886,514
	<b>31,516,870</b>	16,723,875

**13.1** The right to returned asset represents the Group's right to recover products from customers where customers exercise their right of return under the Group's policy. The right to return is measured by reference to the former carrying amounts of the goods.

**13.2** The refund liability relates to customers' right to return products and volume rebates. The Group recognises a refund liability for the amount of consideration received for which the entity does not expect to be entitled.

**14 CASH AND CASH EQUIVALENTS**

	<b>2023</b>	2022
Cash at banks	<b>47,746,808</b>	129,115,934
Cash in hand	<b>6,576,383</b>	9,853,019
	<b>54,323,191</b>	138,968,953

**15 SHARE CAPITAL AND STATUTORY RESERVE**

**15.1 Share capital**

The authorized issued and paid up capital is SR 850 million, which is divided into 85 million shares (2022: 85 million shares) of SR 10 each.

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**15 SHARE CAPITAL AND STATUTORY RESERVE (continued)**

**15.2 Statutory reserve**

As of the reporting date, in accordance with the Company's By-law's, the Company is required to maintain a statutory reserve equal to maximum of 30% of its share capital. According to the latest update in the Regulations for Companies in the Kingdom of Saudi Arabia, the mandatory statutory reserve requirement has been abolished. In pursuant to this change, the Company has amended its By-laws subsequent to the year end.

**16 TERM LOANS**

	<b>2023</b>	2022
Term loans	<b>302,083,334</b>	400,000,000
Less: current portion	<b>(161,666,668)</b>	(122,916,668)
Non-current portion	<b>140,416,666</b>	277,083,332

**16.1** Term loans represents Murabaha and Tawaruq, loans which were obtained from various local commercial banks and carry financial costs at normal commercial rates. The facilities are secured by promissory notes. These facilities carry borrowing cost at average rate of SIBOR plus 1%. These loans are repayable in semi-annual and quarterly installments over the period of two years.

**16.2** These facility agreements contain financial covenants which require the Group to maintain certain level of financial ratios. There have been no breaches of financial covenants of these facility agreements for the year ended 31 December 2023.

**17 EMPLOYEES' BENEFITS**

The Group operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Employees' end -of-service benefit plans are unfunded plan.

The amounts recognised in the consolidated statement of profit or loss related to employee benefit obligations are as follows:

**Total amount recognized in profit or loss:**

	<b>2023</b>	2022
Current service cost	<b>20,736,286</b>	23,615,931
Interest cost on benefit obligation	<b>5,969,554</b>	5,145,133
	<b>26,705,840</b>	28,761,064

Total amount recognized in other comprehensive income:

Remeasurement loss arising from:

	<b>2023</b>	2022
Actuarial loss / (gain) due to change in financial assumptions	<b>1,113,831</b>	(6,763,413)
Actuarial loss / (gain) due to change in demographic assumptions	<b>3,743</b>	(2,722,114)
Actuarial gain due to change in experience adjustments	<b>(3,039,980)</b>	(130,889)
	<b>(1,922,406)</b>	(9,616,416)

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**17 EMPLOYEES' BENEFITS (continued)**

The following table represents the movement of the employees' benefits:

	<b>2023</b>	<b>2022</b>
At the beginning of the year	<b>132,058,361</b>	125,348,335
Current service cost	<b>20,736,286</b>	23,615,931
Interest cost	<b>5,969,554</b>	5,145,133
Payments during the year	<b>(6,490,387)</b>	(12,434,622)
Re-measurement gain	<b>(1,922,406)</b>	(9,616,416)
At the end of the year	<b>150,351,408</b>	132,058,361

(i) The significant actuarial assumptions are as follows:

	<b>2023</b>	<b>2022</b>
Discount rate used for calculation of interest cost-per annum	<b>5%</b>	4%
Salary increment rate-per annum Year 1 – 4	<b>3%</b>	2%
Mortality rates	<b>WHO SA 16</b>	WHO SA 16
Rate of employee turnover	<b>12%</b>	10%
Retirement Assumption	<b>60 years</b>	60 Years

(ii) The weighted average duration of the defined benefit obligations is 11.16 years (2022: 14.82 years).

(iii) Assumptions regarding future mortality have been based on published statistics and mortality tables. For current year, World Health Organization "WHO" 16 mortality table has been used (2022: World Health Organization "WHO" 16 mortality table was used) for Kingdom of Saudi Arabia. There is no major deviation in the mortality tables used.

(iv) The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions for year ended 31 December 2023 and 2022 is as follows:

	<b>2023</b>	<b>2022</b>
Discount rate +1%	<b>152,448,030</b>	141,350,573
Discount rate -1%	<b>173,732,590</b>	147,890,677
Long term salary increases +1%	<b>174,144,442</b>	147,923,572
Long term salary decreases -1%	<b>151,923,278</b>	141,256,781

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

The following are the expected payments to the defined benefit plan in future years:

	<b>2023</b>	<b>2022</b>
Within one year	<b>27,143,724</b>	7,176,139
After one year but not more than five years	<b>61,590,672</b>	40,964,033
More than five years	<b>130,580,414</b>	110,485,161
Total expected payments	<b>219,314,810</b>	158,625,333

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**18 SHORT TERM BORROWINGS**

Short term borrowings represent Murabaha, Tayseer and Tawarooq facilities obtained from various local banks to meet the working capital requirements with a total facility amount of SR 2,325 million (2022: SR 2,372.5 million). The net utilized balance as of 31 December 2023 amounted to SR 500 million (2022: SR 655 million). These facilities carry financial costs in excess of SIBOR and are consistent with the terms of each facility agreement that are secured by promissory notes issued by the Group and carry charges agreed with the facilities' providers. Further, these facility agreements contain financial covenants which require the Group to maintain certain level of financial ratios. As of 31 December 2023, the Group was in compliance with the loan covenants.

The outstanding financing is classified under current liabilities in the consolidated statement of financial position as these are repayable within 12 months from the reporting date.

**19 TRADE AND OTHER PAYABLES**

	<b>2023</b>	2022
Trade payables	<b>712,404,966</b>	426,186,418
Accrued expenses	<b>41,383,256</b>	36,714,602
Value-added tax payable, net	<b>20,975,823</b>	31,953,668
Interest payable	<b>5,754,883</b>	6,823,488
Retention payable	<b>2,454,899</b>	3,929,394
Other payables	<b>38,538,927</b>	28,511,875
	<b>821,512,754</b>	534,119,445

**20 DIVIDEND**

On 29 Shaban 1444H (corresponding to 21 March 2023), the Group's Board of Directors have approved cash dividend amounting to SR 1.25 per share amounting to SR 106.25 million for the second half of 2022, which was distributed on 11 Shawwal 1444H (corresponding to 1 May 2023).

On 15 Safar 1445H (corresponding to 31 August 2023), the Board of Directors resolved to distribute interim cash dividends of SR 1.25 per share amounting to SR 106.25 million for the first half of 2023. Payment of this dividend distribution was commenced on 13 Rabi ul Awal 1445H (corresponding to 28 September 2023).

**21 CONTRACT LIABILITIES**

	<b>2023</b>	2022
Arbahi loyalty programme	<b>22,579,380</b>	26,527,537

**21.1** Contract liabilities are recognised in respect of points awarded to customers. These points provide a benefit to customers that they would not receive without entering into a purchase contract and the promise to provide loyalty points to the customer therefore it is a separate performance obligation.

**21.2** Movement on contract liabilities during the year is as follows:

	<b>2023</b>	2022
1 January	<b>26,527,537</b>	40,545,990
Deferred during the year	<b>40,257,090</b>	46,833,242
Recognised as revenue during the year	<b>(44,205,247)</b>	(60,851,695)
31 December	<b>22,579,380</b>	26,527,537



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**22 REVENUE**

*Disaggregation of revenue*

In the following table, revenue is disaggregated by type, primary geographical market and timing of revenue recognition.

	<b>2023</b>	<b>2022</b>
<b>Type of revenue</b>		
Retail	<b>5,442,960,611</b>	5,175,912,574
Wholesale	<b>281,314,062</b>	196,329,935
Logistic	<b>17,089,393</b>	-
	<b>5,741,364,066</b>	5,372,242,509
<b>Primary geographic markets</b>		
Kingdom of Saudi Arabia	<b>5,741,364,066</b>	5,372,242,509
<b>Timing of revenue recognition</b>		
Goods transferred at a point in time	<b>5,724,274,673</b>	5,372,242,509
Goods transferred over time	<b>17,089,393</b>	-
	<b>5,741,364,066</b>	5,372,242,509
	<b>2023</b>	<b>2022</b>
Trade receivables	<b>447,171,699</b>	318,490,456
Contract liabilities*	<b>22,579,380</b>	26,527,537

\*Contract liabilities include transaction price allocated to loyalty points not yet redeemed. Amount of revenue recognised from and included in contract liabilities at the beginning of the year SR 26,527,537 (2022: SR 40,545,990). The transaction price allocated to the remaining performance obligations as at 31 December 2023 is SR 22,579,380 (2022: SR 26,527,537). The remaining performance obligations expected to be recognised in within one year relate to the customer loyalty programme. The customer loyalty points have an expiration of 12 months after the initial sale.

**23 COST OF REVENUE**

	<b>2023</b>	<b>2022</b>
Cost of goods sold (note 10.1)	<b>3,625,116,627</b>	3,352,644,016
Depreciation of property and equipment (note 6)	<b>2,923,590</b>	-
Others	<b>6,704,917</b>	-
	<b>3,634,745,134</b>	3,352,644,016

**24 SELLING AND DISTRIBUTION EXPENSES**

	<b>2023</b>	<b>2022</b>
Employees' cost	<b>864,896,190</b>	911,285,475
Depreciation of right-of-use assets (note 7)	<b>197,944,999</b>	195,067,122
Depreciation of property and equipment (note 6)	<b>147,905,000</b>	147,194,060
Utilities	<b>54,759,231</b>	54,085,750
Housebrand and marketing	<b>59,762,964</b>	49,400,326
Repair and maintenance	<b>41,948,053</b>	44,513,881
Promotions	<b>24,133,713</b>	24,238,177
Governmental fees	<b>18,065,155</b>	17,191,641
Points of sale expenses	<b>17,966,057</b>	16,396,601
Stationery and printing	<b>12,815,877</b>	4,226,697
IT services	<b>12,284,260</b>	19,230,566
Travel and transportation	<b>8,229,881</b>	7,170,875
Expense relating to short-term and variable leases (note 7)	<b>8,206,042</b>	5,321,170
Car rent expenses	<b>6,140,775</b>	2,961,499
Insurance	<b>6,026,266</b>	3,927,271
Cargo and packing	<b>2,143,694</b>	1,970,973
Others	<b>17,224,021</b>	10,233,264
	<b>1,500,452,178</b>	1,514,415,348

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**25 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2023</b>	<b>2022</b>
Employees' cost	73,295,366	67,488,059
IT services	25,409,619	35,136,337
Amortisation of intangible assets (note 8)	5,528,689	5,721,671
Depreciation of property and equipment (note 6)	5,312,340	4,852,697
Depreciation of right-of-use assets (note 7)	4,130,066	1,686,345
Board of directors' remuneration	2,631,000	2,592,000
Travel	2,420,449	1,548,583
Professional fees	2,244,608	4,854,803
Vehicles expenses	863,237	713,478
Gifts and donation	415,000	380,000
Expense relating to short-term leases (note 7)	168,350	820,772
Others	4,360,245	5,655,640
	<b>126,778,969</b>	<b>131,450,385</b>

**26 FINANCE COST**

	<b>2023</b>	<b>2022</b>
Interest on loans	59,550,094	63,175,813
Interest on lease liabilities (note 7)	58,766,489	48,687,489
Interest cost on employees' defined benefit liabilities (note 17)	5,969,554	5,145,133
	<b>124,286,137</b>	<b>117,008,435</b>

**27 OTHER (EXPENSE) / INCOME, NET**

	<b>2023</b>	<b>2022</b>
Income from insurance claim settlement	2,375,746	189,969
Gain on disposal of property and equipment (note 6)	1,102,683	3,007,982
Dividend income from equity instruments designated at FVOCI (note 9.2)	731,764	4,901,383
Loss from foreign currencies exchange	(1,999,480)	(1,020,299)
(Loss) / gain on derecognition due to termination of leases (note 7)	(4,622,208)	2,685,482
Loss on property and equipment written off (note 6)	(5,784,909)	(7,835,876)
Others, net	(4,501,467)	(663,668)
	<b>(12,697,871)</b>	<b>1,264,973</b>

**28 PROVISION FOR ZAKAT**

The zakat charge for the Group has been computed for the Group, which files a combined zakat return for the Company and its wholly owned subsidiary.

**28.1** The principal elements of the zakat base are as follows:

	<b>2023</b>	<b>2022</b>
Non-current assets	2,700,731,133	2,710,284,222
Current liabilities	1,796,033,359	1,618,279,416
Opening shareholders' equity	1,095,187,835	989,185,881
Profit before zakat	342,403,777	317,869,565

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

**28.2** The movement in Group's zakat is as follows:

	<b>2023</b>	<b>2022</b>
At beginning of the year	18,958,328	13,990,924
Provision made during the year	13,180,400	12,420,932
Paid during the year	(8,797,900)	(7,453,528)
At the end of the year	<b>23,340,828</b>	<b>18,958,328</b>

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**28 PROVISION FOR ZAKAT (continued)**

**28.3 Status of zakat assessment**

Zakat assessments have been agreed with the ZATCA up to 2016. The Group's zakat return for the years 2017 to 2022 has been filed with the ZATCA. However, the assessments have not yet been raised by the ZATCA.

Zakat base has been computed based on the Group's understanding of the zakat regulations enforced in the Kingdom of Saudi Arabia. The assessments to be raised by the ZATCA could be different from the declarations filed by the Group.

**29 EARNINGS PER SHARE**

Basic earnings per share amounts are calculated by dividing profit for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

The following reflects the profit and share capital data used in the basic and diluted earnings per share computations:

	2023	2022
Profit attributable to equity holders	329,223,377	305,448,633
Number of shares outstanding	85,000,000	85,000,000
Earnings per share	3.87	3.59

There has been no item of dilution affecting the weighted average number of ordinary shares.

**30 RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties comprise the shareholders, directors, associated companies (representing entities controlled or under the significant influence of the Group's shareholders) and key management personnel. Related parties also include business entities in which certain directors or senior management have an interest (related parties). The Group in the normal course of business carries out transactions with various related parties.

The pricing policies and terms of payment of transactions with the related parties are approved by the Group's Board of Directors. During the year ended 31 December 2023 the Group has incurred transactions with Meshraf General Contracting Company amounting to SR 93.4 million were approved by the Board during 2021 to 2023. The outstanding balances at the year ended 31 December 2023 and the year ended 31 December 2022 are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided to amounts due to related parties.

(a) Following are the major transactions entered into by the Group with its related parties:

Related parties	Nature of transactions	2023	2022
Meshraf General Contracting Company (controlled by key management personnel)	Construction cost of pharmacies	93,415,712	104,499,994
Classic Travel & Tours Agency (under common ownership of the Group's shareholder)	Tickets and other travel expenses	27,057,296	23,438,829
Digital Business System Company (controlled by key management personnel)	IT services provided to the Group	27,747,834	53,258,608
Walaa Cooperative Insurance Company (other related party)	Insurance services provided to the Group	8,876,727	4,725,161
966 Motors Establishment (controlled by key management personnel)	Maintenance services	4,804,765	5,007,853
Eastern Province Cement Company (other related party)	Offices rental for the Group	1,267,202	2,590,728

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**30 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

(a) Following are the major transactions entered into by the Group with its related parties (continued):

<b>Related parties</b>	<b>Nature of transactions</b>	<b>2023</b>	<b>2022</b>
Zahwa Trading Services Company (controlled by key management personnel)	Purchases of inventories	<b>6,673,689</b>	8,232,952
Kanaf Charitable Association (controlled by key management personnel)	Donation from pharmacies customers	<b>42,728</b>	100,860
Mawarid Trading Limited (under common ownership of the Group's shareholder)	Purchases of inventories	-	1,442,821
ACE Gallagher Arabia Insurance (other related party)	Insurance services provided to the Group	-	370,824
Ms. Nouf Saad Al-Farraj (close family member of key management personnel)	Offices rental for the Group	-	200,000
Saudi Arabian Cooperative Insurance Co. - SAICO (other related party)	Sales of goods	-	6,313,191
Najm Suhail (controlled by close family member of key management persone	Marketing services provided to the Group	-	2,927,306

(b) Key management personnel compensation:

	<b>2023</b>	<b>2022</b>
Short-term employee benefits	<b>32,425,913</b>	29,301,218
Post-employment benefits	<b>1,812,531</b>	1,590,644
	<b>34,238,444</b>	30,891,862

During the year ended 31 December 2023, the Board of Directors' compensation amounted to SR 2.6 million (2022: SR 2.6 million).

(c) Due from related parties:

	<b>2023</b>	<b>2022</b>
Eastern Province Cement Company	<b>2,037,890</b>	-
Mawarid Trading Limited	<b>130,067</b>	-
Saudi Arabian Cooperative Insurance Co. – SAICO	-	879,005
	<b>2,167,957</b>	879,005

(d) Due to related parties:

	<b>2023</b>	<b>2022</b>
Meshraf General Contracting Company	<b>20,195,624</b>	17,161,166
Digital Business System Company	<b>21,674,929</b>	19,170,344
Zahwa Trading Services Company	<b>2,490,763</b>	647,793
Walaa Cooperative Insurance Company	<b>2,189,400</b>	157,184
966 Motors Establishment	<b>1,008,020</b>	-
Classic Travel & Tours Agency	<b>905,603</b>	859,331
Kanaf Charitable Association	<b>7,947</b>	14,194
Eastern Province Cement Company	-	320,341
Mawarid Trading Limited	-	79,535
ACE Gallagher Arabia Insurance	-	57,502
Accrued directors' remuneration	<b>2,460,000</b>	2,460,000
	<b>50,932,286</b>	40,927,390

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**31 CONTINGENCIES AND COMMITMENTS**

- (a) As of 31 December 2023, the capital expenditure contracted by the Group but not incurred till 31 December 2023 was approximately SR 271.6 million (2022: SR 186 million).
- (b) The Group's bankers have given letter of guarantees and letter of credits, on behalf of the Group, amounting to SR 13.1 million and SR 97.6 million (2022: SR 9.4 million and SR 67.6 million), respectively.

**32 SEGMENT INFORMATION**

A segment is a distinguishable component of the Group that is engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

For management purposes, the Group is organised into business units based on its products and services and has following three reportable segments:

- Retail: this segment includes the sale of goods to customers commonly at the store checkout for the sales via the Group's pharmacies.
- Wholesale: this segment includes sale of goods to the wholesale customers.
- Logistic: during the year ended 31 December 2023, the Group has started provision of transportation services which has been considered as a separate reportable segment.

The Board of directors is the Chief Operating Decision Maker (CODM) and monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. Also, the Group's financing (including finance costs) and zakat are managed on a Group basis and are not allocated to operating segments.

The information for each operating segment for the years ended 31 December 2023 and 31 December 2022 is as follows:

<b>31 December 2023</b>	<b>Retail</b>	<b>Wholesale</b>	<b>Logistic</b>	<b>Total</b>
Revenue	5,442,960,611	281,314,062	17,089,393	5,741,364,066
Depreciation	-	-	(2,923,590)	(2,923,590)
Other costs	(3,419,791,898)	(205,324,729)	(6,704,917)	(3,631,821,544)
Total cost of revenue	(3,419,791,898)	(205,324,729)	(9,628,507)	(3,634,745,134)
Gross profit	2,023,168,713	75,989,333	7,460,886	2,106,618,932
Depreciation and amortisation	(347,222,565)	(13,347,975)	(250,554)	(360,821,094)
Other expenses	(1,218,681,930)	(46,848,729)	(879,394)	(1,266,410,053)
Other expenses, net	(12,219,317)	(478,554)	-	(12,697,871)
Operating profit	445,044,901	15,314,075	6,330,938	466,689,914
<i>Unallocated expenses:</i>				
Finance cost				(124,286,137)
Zakat				(13,180,400)
<b>Profit for the year</b>				<b>329,223,377</b>
<b>Total assets</b>	<b>4,538,729,928</b>	<b>164,762,051</b>	<b>3,995,191</b>	<b>4,707,487,170</b>
<b>Total liabilities</b>	<b>3,275,675,533</b>	<b>118,806,885</b>	<b>-</b>	<b>3,394,482,418</b>

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**32 SEGMENT INFORMATION (continued)**

<i>31 December 2022</i>	Retail	Wholesale	Total
Revenue	5,175,912,574	196,329,935	5,372,242,509
Cost of revenue	(3,210,786,772)	(141,857,244)	(3,352,644,016)
Gross profit	1,965,125,802	54,472,691	2,019,598,493
Depreciation and amortisation	(350,124,688)	(4,397,207)	(354,521,895)
Other expenses	(1,275,327,038)	(16,016,800)	(1,291,343,838)
Reversal of impairment on trade receivables	-	614,655	614,655
Other income, net	1,249,284	15,689	1,264,973
Operating profit	340,923,360	34,689,028	375,612,388
<i>Unallocated income / (expenses):</i>			
Fair value gain on swap derivatives			59,265,612
Finance cost			(117,008,435)
Zakat			(12,420,932)
Profit for the year			305,448,633
Total assets	4,361,870,151	134,903,201	4,496,773,352
Total liabilities	3,253,658,446	147,927,071	3,401,585,517

Revenue reported above is generated from external customers and there was no inter-segment revenue.

Revenue from one customer amounted to SR 1,160.4 million (2022: SR 782.8 million), arising from sales in the retail and wholesale segments.

**33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial liabilities comprise lease liabilities, term loans, short term borrowings, amount due to related parties, trade payables, accrual and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include trade and other receivables, amount due from related parties and cash and bank balances that derive directly from its operations. The Group's management reviews and agrees policies for managing each of these risks which are summarized below.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's Board of Directors regularly review the policies and procedures to ensure that all the financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

***Market risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk and currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include term loans, short-term loans, trade payables and equity investments. The sensitivity analyses in the following sections relate to the position as at 31 December in 2023 and 2022.

***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with floating interest rates. The Group manages its exposure to this risk by continuously monitoring movements in interest rates. The following table demonstrates the sensitivity of the profit to reasonably possible changes in interest rates, with all other variables held constant.

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**33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

*Interest rate risk (continued)*

	<u>2023</u>	<u>2022</u>
Interest rate – increase by 100 basis points	<b>8,020,833</b>	10,550,000
Interest rate – decrease by 100 basis points	<b>(8,020,833)</b>	(10,550,000)

*Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency).

The Group did not undertake significant transactions in currencies other than Saudi Riyals (SR), US Dollars (US \$), UAE Dirhams ("AED"), British Pounds ("GBP ") and Euro ("EUR") during the year. As SR is pegged to US \$ and AED, the management of the Group believes that the currency risk for financial instruments denominated in US \$ and AED is not significant. The Group is exposed to currency risk on transactions and balances in GBP and EUR however, at 31 December 2023 there is no outstanding balance payable in GBP. The Group manages currency risk exposure to the above currencies by continuously monitoring the currency fluctuations.

The following tables demonstrate the sensitivity to a reasonably possible change in GBP and EUR exchange rates, with all other variables held constant. The impact on the Group's profit is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	<u>Change in GBP rate</u>	<u>Effect on profit</u>
<b>31 December 2023</b>	<b>+ 10%</b>	<b>-</b>
	<b>- 10%</b>	<b>-</b>
31 December 2022	+ 10%	(196,028)
	- 10%	196,028
	<u>Change in EUR rate</u>	<u>Effect on profit</u>
<b>31 December 2023</b>	<b>+ 10%</b>	<b>(566,351)</b>
	<b>- 10%</b>	<b>566,351</b>
31 December 2022	+ 10%	(922,378)
	- 10%	922,378

*Equity price risk*

The Group's listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to equity investments at fair value listed on the Saudi Exchange market (Tadawul) was SR 208.8 million (2022: SR 162.2 million). Given that the changes in fair values of the equity investments held are strongly positively correlated with changes of the market index, the Group has determined that an increase/(decrease) of 10% on the market index could have an impact of approximately SR 20.9 million (2022: SR 16.2 million) increase/(decrease) on the other comprehensive income in consolidated statement of comprehensive income and equity attributable to the Group.

*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 credit risk on its bank balances, deposits and receivables as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	<b>47,746,808</b>	129,115,934
Trade receivables	<b>474,634,997</b>	345,953,754
Amount due from related parties	<b>2,167,957</b>	879,005
Other receivables	<b>18,017,837</b>	17,686,642
	<u><b>542,567,599</b></u>	<u>493,635,335</u>

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**33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

*Credit risk (continued)*

The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and obtaining bank guarantees from certain customers. Funds are placed in banks with sound credit ratings. Financial position of related parties is stable.

*Trade receivables*

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored. Sales to retail customers are required to be settled in cash or using credit cards, mitigating credit risk.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for grouping of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

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

<b>31 December 2023</b>	<b>Expected credit loss rate</b>	<b>Gross trade receivables</b>	<b>Expected credit loss</b>
Not due yet	1%	402,586,958	3,220,696
Past due - 1 to 90 days	2%	34,851,279	557,620
Past due - 91 to 180 days	8%	13,380,489	1,097,200
Past due - 181 to 270 days	41%	1,706,277	702,986
Past due - 271 to 360 days	52%	471,094	245,896
Past due - 360 days more	100%	21,638,900	21,638,900
		<b>474,634,997</b>	<b>27,463,298</b>
<b>31 December 2022</b>	<b>Expected credit loss rate</b>	<b>Gross trade receivables</b>	<b>Expected credit loss</b>
Not due yet	1%	304,856,332	3,787,475
Past due - 1 to 90 days	3%	10,648,793	266,220
Past due - 91 to 180 days	18%	5,878,951	1,044,992
Past due - 181 to 270 days	51%	4,130,937	2,090,254
Past due - 271 to 360 days	56%	371,182	206,798
Past due - 360 days more	100%	20,067,559	20,067,559
		<b>345,953,754</b>	<b>27,463,298</b>

*Bank balances*

Impairment of cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short-term maturities of the exposure. The Group considers that its cash and cash equivalents have low credit risk as wherever required the Group secure support from its partners to satisfy short term funding requirements. Funds are placed with banks having good credit ratings and therefore are not subject to significant credit risk.



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**33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

***Liquidity risk***

Liquidity risk is the risk that the Group 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 an amount close to its fair value. The Group manages its liquidity risk by ensuring bank facilities are available when required. The Group's terms of contracts require amounts to be paid within 30 to 90 days of the date of billing. Trade payables are normally settled within 30 to 60 days of the date of purchase.

***Excessive risk concentration***

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The table below summarizes the maturities of the Group's financial liabilities at 31 December, based on contractual payment dates and current market interest rates:

<b>2023</b>	<b>Carrying amount</b>	<b>Up to 1 Year</b>	<b>From 1 year to 5 years</b>	<b>Above 5 years</b>	<b>Total</b>
<b>Term loans</b>	<b>302,083,334</b>	<b>171,767,214</b>	<b>148,701,249</b>	<b>-</b>	<b>320,468,463</b>
<b>Lease liabilities</b>	<b>1,492,165,558</b>	<b>239,607,060</b>	<b>857,492,829</b>	<b>654,212,576</b>	<b>1,751,312,465</b>
<b>Short-term loans</b>	<b>500,000,000</b>	<b>529,500,000</b>	<b>-</b>	<b>-</b>	<b>529,500,000</b>
<b>Trade payables</b>	<b>712,404,966</b>	<b>712,404,966</b>	<b>-</b>	<b>-</b>	<b>712,404,966</b>
<b>Accruals and other payables</b>	<b>88,131,965</b>	<b>88,131,965</b>	<b>-</b>	<b>-</b>	<b>88,131,965</b>
<b>Amount due to related parties</b>	<b>50,932,286</b>	<b>50,932,286</b>	<b>-</b>	<b>-</b>	<b>50,932,286</b>
	<b>3,145,718,109</b>	<b>1,792,343,491</b>	<b>1,006,194,078</b>	<b>654,212,576</b>	<b>3,452,750,145</b>
<b>2022</b>	<b>Carrying amount</b>	<b>Up to 1 year</b>	<b>From 1 year to 5 years</b>	<b>Above 5 years</b>	<b>Total</b>
<b>Term loans</b>	<b>400,000,000</b>	<b>126,555,429</b>	<b>288,172,661</b>	<b>-</b>	<b>414,728,090</b>
<b>Lease liabilities</b>	<b>1,577,270,581</b>	<b>229,081,218</b>	<b>833,025,640</b>	<b>892,360,096</b>	<b>1,954,466,954</b>
<b>Short-term loans</b>	<b>655,000,000</b>	<b>665,927,174</b>	<b>-</b>	<b>-</b>	<b>665,927,174</b>
<b>Trade payables</b>	<b>426,186,418</b>	<b>426,186,418</b>	<b>-</b>	<b>-</b>	<b>426,186,418</b>
<b>Accruals and other payables</b>	<b>75,979,359</b>	<b>75,979,359</b>	<b>-</b>	<b>-</b>	<b>75,979,359</b>
<b>Amount due to related parties</b>	<b>40,927,390</b>	<b>40,927,390</b>	<b>-</b>	<b>-</b>	<b>40,927,390</b>
	<b>3,175,363,748</b>	<b>1,564,656,988</b>	<b>1,121,198,301</b>	<b>892,360,096</b>	<b>3,578,215,385</b>

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**33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

*Reconciliation of movements of liabilities to cash flows arising from financing activities*

		Term loans including related accrued interest	Short-term loans	Lease liabilities	Dividends payable	Total
	Note					
Balance at 1 January 2023		400,000,000	655,000,000	1,577,270,581	407,965	2,632,678,546
Changes from financing cash flows						
Proceeds from loans		30,000,000	1,520,000,000	-	-	1,550,000,000
Repayment of loans		(127,916,666)	(1,675,000,000)	-	-	(1,802,916,666)
Payment of lease liabilities	7	-	-	(235,138,156)	-	(235,138,156)
Payment of dividend		-	-	-	(212,907,965)	(212,907,965)
Total changes from financing cash flows		(97,916,666)	(155,000,000)	(235,138,156)	(212,907,965)	(700,962,787)
Others		-	-	(28,163,581)	212,500,000	184,336,419
Addition to lease liabilities	7	-	-	119,430,225	-	119,430,225
Interest cost	7	59,550,094	-	58,766,489	-	118,316,583
Interest paid		(60,618,699)	-	-	-	(60,618,699)
Total liability related changes		(1,068,605)	-	150,033,133	212,500,000	361,464,528
Balance at 31 December 2023		301,014,729	500,000,000	1,492,165,558	-	2,293,180,287
		Term loans including related accrued interest	Short-term loans	Lease liabilities	Dividends payable	Total
	Note					
Balance at 1 January 2022		-	1,100,000,000	1,039,121,922	-	2,139,121,922
Changes from financing cash flows						
Proceeds from loans		400,000,000	3,059,250,000	-	-	3,459,250,000
Repayment of loans		-	(3,504,250,000)	-	-	(3,504,250,000)
Payment of lease liabilities	7	-	-	(243,994,110)	-	(243,994,110)
Payment of dividend		-	-	-	(105,842,034)	(105,842,034)
Total changes from financing cash flows		400,000,000	(445,000,000)	(243,994,110)	(105,842,034)	(394,836,144)
Others		-	-	579,295,327	106,250,000	685,545,327
Addition to lease liabilities	7	-	-	154,159,953	-	154,159,953
Interest cost	7	63,191,399	-	48,687,489	-	111,878,888
Interest paid		(60,116,299)	-	-	-	(60,116,299)
Total liability related changes		3,075,100	-	782,142,769	106,250,000	891,467,869
Balance at 31 December 2022		403,075,100	655,000,000	1,577,270,581	407,966	2,635,753,647

**Capital management**

For purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the Group. The primary objective of the Group's capital management is to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' value.

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**33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Capital management (continued)**

The Group's policy is to maintain a strong capital base so as to maintain creditor and to sustain future development of the business. The Group manages its capital structure and makes adjustments in light of changes in economic conditions, business conditions and the requirements of the financial covenants. Management monitors the return on capital, which the Group defines as net debt divided by total equity; net debt is total liabilities less bank balances and cash. Management also monitors the level of dividends to shareholders. The Group's net debt to capital ratio at the end of the reporting year was as follows:

	<b>2023</b>	<b>2022</b>
Total Liabilities	<b>3,394,482,418</b>	3,401,585,517
Less: bank balances and cash	<b>(54,323,191)</b>	(138,968,953)
Net debt	<b>3,340,159,227</b>	3,262,616,564
Total equity	<b>1,313,004,752</b>	1,095,187,835
Equity and net debt	<b>4,653,163,979</b>	4,357,804,399
Gearing ratio	<b>72%</b>	75%

In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the term loans and short-term borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of financial covenants of its facility agreements in the current year.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2023 and 31 December 2022.

**34 FAIR VALUES OF FINANCIAL INSTRUMENTS**

As of 31 December 2023 and 31 December 2022, all of the Group's financial instruments have been carried at amortized cost and the Group does not hold any financial instruments measured at fair value except investment designated at FVOCI which has been classified in level 1 of fair value hierarchy. The carrying value of the other financial assets and liabilities in the consolidated statement of financial position approximates to their fair values.

**35 CORRESPONDING FIGURES**

Certain corresponding figures have been rearranged and reclassified, wherever considered necessary for better presentation, the effect of which is not material. The following table summarise the impacts on the Group's consolidated statement of profit or loss.

	As previously stated	Effects due to reclassification	As restated
Consolidated statement of profit or loss for the year 31 December 2022			
Selling and distribution expenses	(1,517,781,359)	3,366,011	(1,514,415,348)
General and administrative expenses	(132,778,118)	1,327,733	(131,450,385)
Reversal of impairment on trade receivables	-	614,655	614,655
Other income / (expense), net	14,353,740	(13,088,767)	1,264,973
Fair value gain on swap derivatives	51,485,244	7,780,368	59,265,612
Net cash generated from operating activities	778,357,045	(843,300)	777,513,745
Net cash generated from financing activities	(346,991,955)	843,300	(346,148,655)

**36 EVENTS AFTER THE REPORTING DATE**

Subsequent to the year end, on 19 Jumada Al-Akhirah 1445H (corresponding to 1 January 2024), the Group's Board of Directors have approved cash dividend amounting to SR 1.25 per share amounting to SR 106.25 million for the year ended 31 December 2023 which was distributed on 15 Shaban 1445H (corresponding to 25 February 2024).

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**36 EVENTS AFTER THE REPORTING DATE (continued)**

Except as disclosed above, there have been no significant subsequent events since the year ended 31 December 2023 till the date of authorization of these consolidated financial statements by the Board of Directors that require either an adjustment or disclosure in these consolidated financial statements.

**37 BRANCHES**

Serial	Commercial Registration Number	City
1	2055005752	Jubail
2	5850069828	Abha
3	5900034945	Jazan
4	5950032607	Najran
5	4700020119	Yanbu
6	5800104454	Al Baha
7	4603150096	Al Qunfudah
8	2056001400	Al Nairyah
9	4032050601	Taif
10	2050047786	Dammam
11	2251033359	Hofuf
12	2055025545	Jubail
13	2511015283	Hafr Al Batin
14	3450008683	Arar
15	3550022454	Tabuk
16	3400010861	Skaka
17	3452004992	Qurayyat
18	3350039005	Hail
19	1131303455	Buraidah
20	2066003484	Ras Tanura
21	4030142950	Jeddah
22	4030316786	Jeddah
23	2511024976	Hafr Al Batin
24	2511021391	Hafr Al Batin
25	5855066246	Khamis Mushait
26	5855345647	Khamis Mushait
27	3400017991	Skaka
28	3400014841	Skaka
29	2050139408	Dammam
30	2051236791	Khobar
31	2050148416	Dammam
32	2050137129	Dammam
33	2050134558	Dammam
34	1010625009	Riyadh
35	4030286836	Jeddah
36	4650081067	Al Madinah
37	4031231357	Makkah
38	2252061539	Al Mubarraz
39	1010428087	Riyadh
40	1010430093	Riyadh
41	1010181366	Riyadh
42	1131055138	Buraidah
43	2051032340	Khobar
44	2050099769	Dammam
45	2050109593	Dammam
46	4030276960	Jeddah

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**37 BRANCHES (continued)**

<b>Serial</b>	<b>Commercial Registration Number</b>	<b>City</b>
47	2050095574	Dammam
48	2050091536	Dammam
49	5850035609	Abha
50	2251051269	Hofuf
51	2050051362	Dammam
52	2050162533	Dammam
53	2051242345	Khobar
54	2051242781	Khobar
55	5851008690	Bisha
56	1122101682	Al Majmaah

During the year, the Group has closed the below branches due to the lack of economic viability of the activity. Legal requirements are finalized for the closing out of these branches.

<b>Serial</b>	<b>Commercial Registration Number</b>	<b>City</b>
1	2055005252	Jubail
2	2055006224	Jubail
3	2051026298	Khobar
4	1010428089	Riyadh
5	1010428088	Riyadh
6	1010425058	Riyadh

**38 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS**

These consolidated financial statements were authorized for issue and approved on 9 Ramadan 1445H corresponding to 19 March 2024G by the Board of Directors of the Company.