

**AL NAHDI MEDICAL COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL
STATEMENTS**

31 DECEMBER 2022

**AL NAHDI MEDICAL COMPANY
(A SAUDI JOINT STOCK COMPANY)**

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31 DECEMBER 2022**

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Independent Auditor's Report To the Shareholders of Al Nahdi Medical Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al Nahdi Medical Company and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants.

Basis for Opinion

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

Key Audit Matters

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

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

**Independent Auditor’s Report
To the Shareholders of Al Nahdi Medical Company (A Saudi Joint Stock Company) (continued)**

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><u>Impairment loss on trade receivables</u> As at 31 December 2022, the gross value of trade receivables amounted to SR 138.6 million. (2021: SR 146.9 million) and the allowance for expected credit losses amounted SR 8.4 million (2021: SR 6.7 million).</p> <p>Assessment of impairment allowance for expected credit losses is highly subjective due to the significant judgement, estimates and assumptions applied by the management in determining the expected credit losses. The management is required for each reporting period to determine an expected loss rate against its outstanding trade receivables based on the Group's historical credit loss experience adjusted with forward-looking information.</p> <p>We considered this as a key audit matter given the judgements and assumptions regarding the Expected credit loss “ECL” impairment against trade receivables and the potential impact on the Group's consolidated financial statements</p> <p><i>Refer to note 3.8 to the consolidated financial statements for the significant accounting policy, note 2.5 for the critical accounting estimates and judgements and note 11 which details the disclosure of impairment and credit risk associated with trade receivables.</i></p>	<p>We assessed the appropriateness of significant judgements, estimates and assumptions made by the management.</p> <ul style="list-style-type: none"> • We obtained an understanding of management’s assessment of ECL against trade receivables. We compared the Group’s accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9- ‘<i>Financial Instruments</i>’. • We involved our specialists to test the methodology implemented by the Group in relation to the requirements of IFRS 9. Particularly, we assessed the Group’s approach regarding assessment of the probability of default and incorporation of forward-looking information in the calculation of ECL, as well as the changes in loss given default parameter. • We reviewed the appropriateness of the Group’s criteria and judgement for the determination of individually impaired receivable. • We tested the completeness and accuracy of data, on a sample basis, supporting the ECL calculations. <p>We also assessed the reasonableness and adequacy of disclosures in the consolidated financial statements as required by IFRS 9 ‘<i>Financial Instruments</i>’ and IFRS 7 ‘<i>Financial instruments: Disclosure</i>’.</p>

**Independent Auditor’s Report
To the Shareholders of Al Nahdi Medical Company (A Saudi Joint Stock Company) (continued)**

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><u>Existence and valuation of inventories</u></p> <p>As at 31 December 2022, the gross value of Inventories amounted to SR 1,325 million. (2021: SR 1,241 million) and the provision for slow moving and obsolete inventories amounted SR 142 million (2021: SR 125 million).</p> <p>The Group has a perpetual inventory count system in place to conduct the stock count in stores throughout the year.</p> <p>The carrying value of inventory is reduced by provisions including those relating to estimated losses due to slow moving item (note 10)</p> <p>We considered it to be a key audit matter given that:</p> <ul style="list-style-type: none"> • The Group deals with significant values of inventory items at hundreds of locations with high volume of daily transactions which increases the risks associated with inventory; and • Significant judgement and assumptions applied by the management in assessing the level of provisions required as of yearend which includes assessment of inventory levels in relation to revenue for the period in consideration. <p><i>Refer to note 3.9 to the consolidated financial statements for the significant accounting policy, note 2.5 for the significant accounting estimates and note 10 which discloses the inventories and associated impairment.</i></p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • Throughout the year, we have attended a sample of inventory cycle counts in stores and in the distribution centres, to validate counts performed by the Group. • Evaluated the stock taking process and the provisioning processes and performed test of controls. When reviewing management’s inventory count processes and controls, we also obtained the understanding of the process for controlling or managing stock movements during the count and evaluated its reasonableness; • Evaluated the assumptions made by management, and particularly the key assumption that current system 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 • Assessed reasonableness of the assumptions used in estimating the shrinking provision including reviewing of accuracy and completeness of the key inputs with the underlying supports. We reviewed recent count results, for a sample of Group’s stores, to ensure that the year-end shrinkage provision adequately reflected the levels of stock loss experienced during the year. • Assessed the adequacy of related disclosure (notes 10) included in the consolidated financial statements of the Group.

Other information included in The Group’s 2022 Annual Report

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

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

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

When we read the Group’s 2022 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

**Independent Auditor's Report
To the Shareholders of Al Nahdi Medical Company (A Saudi Joint Stock Company) (continued)**

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

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

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

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

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

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

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

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

**Independent Auditor's Report
To the Shareholders of Al Nahdi Medical Company (A Saudi Joint Stock Company) (continued)**

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

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

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

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

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

for Ernst & Young Professional Services



Abdullah Ali AlMakrami
Certified Public Accountant
License No. 476



Jeddah: 27 Sha'ban 1444H
19 March 2023G

Al Nahdi Medical Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	31 December 2022 SR	31 December 2021 SR
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	913,633,033	885,639,645
Investment properties	7	253,806,184	230,085,000
Intangible assets	8	47,061,133	44,206,156
Right-of-use assets	9	1,166,761,794	1,327,618,022
TOTAL NON-CURRENT ASSETS		2,381,262,144	2,487,548,823
CURRENT ASSETS			
Inventories	10	1,182,834,577	1,116,481,902
Trade receivables	11	130,201,679	140,283,118
Prepayments and other current assets	12	174,292,731	141,566,282
Cash and cash equivalents	13	1,076,311,959	401,044,447
TOTAL CURRENT ASSETS		2,563,640,946	1,799,375,749
TOTAL ASSETS		4,944,903,090	4,286,924,572
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	14(a)	1,300,000,000	1,300,000,000
Statutory reserve	14(b)	279,945,626	191,164,445
Retained earnings		663,833,421	112,615,756
Foreign currency translation reserve		(394,870)	(184,702)
TOTAL SHAREHOLDERS' EQUITY		2,243,384,177	1,603,595,499
NON-CURRENT LIABILITIES			
Lease liabilities	9	792,230,416	991,642,150
Accruals and other non-current liabilities	17	20,044,876	19,094,000
Employee benefit liabilities	15	380,861,250	386,732,043
TOTAL NON-CURRENT LIABILITIES		1,193,136,542	1,397,468,193
CURRENT LIABILITIES			
Trade payables	16	637,165,960	483,995,057
Lease liabilities – current portion	9	375,874,436	367,415,040
Accruals and other current liabilities	17	388,794,074	337,577,035
Zakat provision	18	106,547,901	96,873,748
TOTAL CURRENT LIABILITIES		1,508,382,371	1,285,860,880
TOTAL LIABILITIES		2,701,518,913	2,683,329,073
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,944,903,090	4,286,924,572

APPROVED BY:
Abdullah Al Nahdi
DEPUTY CHAIRMAN

APPROVED BY:
Yasser Joharji
CEO

APPROVED BY:
Mohammed Al-Khubani
CFO

The attached notes from 1 to 33 form an integral part of these consolidated financial statements.

Al Nahdi Medical Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	31 December 2022 SR	31 December 2021 SR
Revenue	28	8,616,187,816	8,066,215,379
Cost of revenue	19	(5,095,295,500)	(4,761,534,264)
GROSS PROFIT		3,520,892,316	3,304,681,115
Other operating income, net	20	51,556,435	71,685,599
Selling and distribution expenses	21	(2,238,937,977)	(2,164,364,858)
General and administrative expenses	22	(330,933,373)	(292,432,949)
OPERATING PROFIT FOR THE YEAR		1,002,577,401	919,568,907
Finance costs		(79,375,137)	(78,881,567)
Finance income		12,128,998	2,962,022
Loss against write off for old distribution centre		(6,950,568)	-
Other income, net		2,080,514	7,648,369
Reversal of impairment on investment properties	7	14,526,595	5,969,000
Loss on derecognition of investment properties	7	(7,062,411)	-
PROFIT FOR THE YEAR BEFORE ZAKAT		937,925,392	857,266,731
Zakat charge	18	(50,113,578)	(44,738,103)
NET PROFIT FOR THE YEAR		887,811,814	812,528,628
OTHER COMPREHENSIVE INCOME			
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement gain/ (loss) on defined benefits obligation	15	52,487,032	(27,690,483)
<i>Items that may be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translation of foreign operations		(210,168)	(23,521)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		940,088,678	784,814,624
EARNINGS PER SHARE			
Basic and diluted, earnings per share attributable to ordinary equity holders of the Parent Company	23	6.83	6.25


 APPROVED BY:
 Abdullah Al Nahdi
 DEPUTY CHAIRMAN


 APPROVED BY:
 Yasser Joharji
 CEO


 APPROVED BY:
 Mohammed Al-Khubani
 CFO

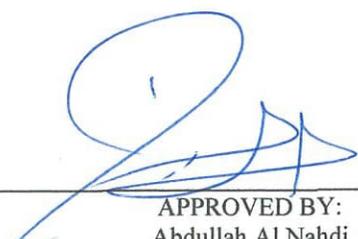
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Al Nahdi Medical Company (A Saudi Joint Stock Company)

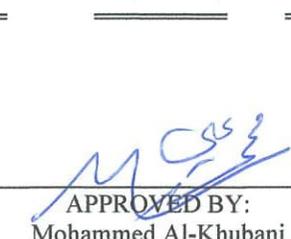
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2022

	<i>Share Capital</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Foreign currency translation reserve</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Balance as at 1 January 2021	1,000,000,000	109,911,582	969,030,474	(161,181)	2,078,780,875
Net profit for the year	-	-	812,528,628	-	812,528,628
Other comprehensive loss for the year	-	-	(27,690,483)	(23,521)	(27,714,004)
Total comprehensive income for the year	-	-	784,838,145	(23,521)	784,814,624
Dividends (note 14c)	-	-	(1,260,000,000)	-	(1,260,000,000)
Transfer to share capital (note 14a)	300,000,000	-	(300,000,000)	-	-
Transfer to statutory reserve	-	81,252,863	(81,252,863)	-	-
Balance as at 31 December 2021	1,300,000,000	191,164,445	112,615,756	(184,702)	1,603,595,499
Net profit for the year	-	-	887,811,814	-	887,811,814
Other comprehensive income for the year	-	-	52,487,032	(210,168)	52,276,864
Total comprehensive income for the year	-	-	940,298,846	(210,168)	940,088,678
Dividends (note 14c)	-	-	(300,300,000)	-	(300,300,000)
Transfer to statutory reserve (note 14a)	-	88,781,181	(88,781,181)	-	-
Balance as at 31 December 2022	1,300,000,000	279,945,626	663,833,421	(394,870)	2,243,384,177


 APPROVED BY:
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 CFO

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Al Nahdi Medical Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	31 December 2022 SR	31 December 2021 SR
OPERATING ACTIVITIES			
Profit for the year before zakat		937,925,392	857,266,731
<i>Adjustment to reconcile profit for the year before zakat to net cash flows from operating activities:</i>			
Depreciation of property and equipment	6	191,194,944	160,851,655
Depreciation of right-of-use assets	9	383,385,159	386,446,137
Amortisation of intangible assets	8	22,062,867	24,202,506
Loss/(gain) on disposal of property and equipment		17,368,076	(147,566)
Loss on disposal of intangible assets		48,505	121,081
Loss on termination of right-of-use assets	9	3,482,510	1,501,373
Reversal of Impairment loss of property and equipment	6	(2,649,935)	(13,523,000)
Reversal of Impairment on Investment properties	7	(14,526,595)	(5,969,000)
Loss on derecognition of investment properties	7	7,062,411	-
Provision for employee benefits	15	68,430,249	60,452,977
Provision/(reversal) for slow moving and obsolete inventories	10	60,660,550	(53,412,577)
Impairment for trade receivable allowance	11	3,189,779	5,868,027
Finance costs		79,375,137	78,881,567
		<u>1,757,009,049</u>	<u>1,502,539,911</u>
<i>Working capital adjustments:</i>			
Inventories		(127,013,225)	85,851,312
Trade receivables		6,891,660	(47,651,970)
Prepayments and other current assets		(32,726,449)	29,265,489
Trade and other payables		153,170,903	43,737,656
Accruals and other current liabilities		52,167,915	(100,425,265)
Due to related parties		-	(24,179,176)
Cash from operations		<u>1,809,499,853</u>	<u>1,489,137,957</u>
Finance costs paid		(79,375,137)	(78,881,567)
Zakat paid	18	(40,439,425)	(45,918,275)
Employee benefits paid	15	(21,814,010)	(30,367,648)
Net cash flows from operating activities		<u>1,667,871,281</u>	<u>1,333,970,467</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	6	(250,266,759)	(282,574,314)
Proceeds from sale of property and equipment		103,286	7,102,060
Purchase of intangible assets	8	(24,966,349)	(23,892,329)
Net cash flows used in investing activities		<u>(275,129,822)</u>	<u>(299,364,583)</u>
FINANCING ACTIVITIES			
Payment of principal portion of lease liabilities	9	(416,963,779)	(382,067,579)
Dividends paid	14(c)	(300,300,000)	(1,260,000,000)
Net cash flows used in financing activities		<u>(717,263,779)</u>	<u>(1,642,067,579)</u>
INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS		675,477,680	(607,461,695)
Net foreign exchange difference		(210,168)	(23,521)
Cash and cash equivalents at the beginning of the year		<u>401,044,447</u>	<u>1,008,529,663</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	13	<u>1,076,311,959</u>	<u>401,044,447</u>
SUPPLEMENTARY NON-CASH INFORMATION			
Addition to right-of-use assets and lease liabilities	9	409,653,545	395,158,159
Transfer to capital from retained earnings		-	300,000,000

APPROVED BY:
Abdullah Al Nahdi
DEPUTY CHAIRMAN

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CEO

APPROVED BY:
Mohammed Al-Khubani
CFO

The attached notes from 1 to 33 form an integral part of these consolidated financial statements.

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

1. CORPORATE INFORMATION

Al Nahdi Medical Company (the “Parent Company” or the “Company”) is a Saudi Joint Stock Company (previously A Saudi Closed Joint Stock Company) formed under Companies Law in the Kingdom of Saudi Arabia under Commercial Registration No. 4030053868 dated 1 October 2003 (corresponding to 5 Sha’ban 1424H). During 2021, a resolution was passed to convert the Company from ‘A Limited Liability Company’ to ‘A Saudi Closed Joint Stock Company’. The legal formalities in this regard were completed on 11 October 2021 (corresponding to 5 Rabi’ I 1443H), and the legal form became “A Saudi Closed Joint Stock Company”. The Group is operating in accordance with the Ministry of Health License No. 26-101-31-67-3 dated 28 December 2003 (corresponding to 22 Dhul-Hijjah 1424H).

During 2021, the Parent Company commenced the process for Initial Public Offering (“IPO”). The Capital Market Authority (“CMA”) Board issued its resolution approving the Parent Company’s application for the offering of 39 million shares representing thirty percent of the Parent Company’s share capital on 29 December 2021 (corresponding to 25 Jumada Al-Ula 1443H). As at 22 March 2022 (corresponding to 27 Sha’ban 1443H), the Parent Company’s shares became listed on the Saudi Stock Exchange (Tadawul) in the Kingdom of Saudi Arabia. The Parent Company’s status changed from “A Saudi Closed Joint Stock Company” to “A Saudi Joint Stock Company”. All the legal formalities were completed during the year in this regard.

The principal activity of the Group is the wholesale and retail trading of cosmetics, pharmaceutical products, special and healthy foods and medical equipment.

The Group operates in the Kingdom of Saudi Arabia (“KSA”) and the United Arab Emirates (“UAE”) and its Head Office is located at the following address:

Al Nahdi Medical Company,
P. Box 17129,
Jeddah 21484,
Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in KSA and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”) (collectively referred to “IFRSs endorsed in KSA”).

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis using the accrual basis of accounting and the going concern assumption, except for the valuation of employee benefit liabilities where actuarial present value calculations are used.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (“SR”) which is also the functional and presentation currency of the Group.

2.4 Basis of consolidation

These consolidated financial statements include the financial position and performance of the Parent Company and the following direct and indirect subsidiaries (collectively referred to “the Group”) in which the Company exercises control as at 31 December 2022:

<i>Subsidiary name</i>	<i>Country of incorporation</i>	<i>Principal business activity</i>	<i>Effective ownership interest</i>	
			<i>31 December 2022</i>	<i>31 December 2021</i>
Al Nahdi Care	KSA	Clinics	100%	100%
Sakhaa Golden Company*	KSA	Labor Services	100%	100%
Nahdi Investment Company**	UAE	Holding Company	100%	100%

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

2. BASIS OF PREPARATION (continued)

2.4 Basis of consolidation (continued)

* During the year ended 31 December 2022, Sakhaa Golden Company made an investment in a subsidiary namely Al Sakhaa integrated solutions formed in Egypt under Commercial Registration No. 194304 dated 28 September 2022 (corresponding to 2 Rabi Al-Awwal1444H) for which the details are as follows:

<i>Subsidiary name</i>	<i>Country of incorporation</i>	<i>Principal business activity</i>	<i>Effective ownership interest</i>	
			<i>31 December 2022</i>	<i>31 December 2021</i>
Al Sakhaa integrated solutions	Egypt	IT consulting	99%	-

The remaining 1% is held by Nahdi Investment Company, who holds the share for the beneficial interest of the company.

**As at 31 December 2022, Nahdi Investment Company also has investments in the following subsidiaries:

<i>Subsidiary name</i>	<i>Country of incorporation</i>	<i>Principal business activity</i>	<i>Effective ownership interest</i>	
			<i>31 December 2022</i>	<i>31 December 2021</i>
Nahdi Drug Store	UAE	Drug store	99%	99%
Al Nahdi Pharmacy	UAE	Pharmacy	99%	99%

The remaining 1% is held by Mr. Saleh Mohamed Amer Salmeen Al Hajeri of Al Nahdi Investment Co. who holds the share for the beneficial interest of the company.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Group, using consistent accounting policies of the Group.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated.

Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

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

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

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

2. BASIS OF PREPARATION (continued)

2.4 Basis of consolidation (continued)

Control is achieved when the Group is exposed, or has rights, to variable returns from its transactions with the investee and has the ability to affect those returns through exercising its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

2.5 Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The significant judgments made by management in applying the Group's accounting policies and the methods of computation and the key sources of estimation are the same as those that applied to the consolidated financial statements for the year ended 31 December 2021. However, any change in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods. As the situation is still evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Sensitivity analysis disclosures (note 15)
- Financial instruments risk management and policies (note 25)
- Capital management (note 26)

Judgements

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

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

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

2. BASIS OF PREPARATION (continued)

2.5 Significant accounting judgments, estimates and assumptions (continued)

Determining the lease term of contracts with renewal and termination options – Group as a lessee (continued)

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 terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset). The periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

The Group has several lease contracts that include extension and terminations options. The options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercise significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Classification of investment properties

The Group determines whether a property qualifies as an investment properties in accordance with IAS 40 Investment Property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group.

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determining method to estimate variable consideration and assessing the constraint

Certain contracts for the sale of goods include a right of return and volume rebates that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the most likely amount method is the appropriate method to use in estimating the variable consideration for the sale of goods with volume rebate as the selected method better predicts the amount of variable consideration driven by customers' rebate entitlement based on volume thresholds and purchase made by them during the period. Since the Group sell products based on customer demands with right to return within a specific period if the goods do not meet the quality criteria, the defective products are exchanged for a functioning product and are evaluated in accordance with IAS 37 Provision, Contingent Liabilities and Contingent Assets.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty, if any, on the variable consideration will be resolved within a short time frame.

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 differences in the carrying amounts of assets and liabilities within the next financial period, are presented below. The Group used these assumptions and estimates on the basis available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Information about the assumptions and estimation uncertainties is included in the following areas:

2. BASIS OF PREPARATION (continued)

2.5 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Useful lives of property and equipment / intangible assets/ investment properties

The management determines the estimated useful lives of property and equipment & intangible assets for calculating depreciation/amortisation. These estimates is determined after considering expected usage of the assets or physical wear and tear. The management reviews the residual value and useful lives annually and future depreciation/amortization charges are adjusted where management believes the useful lives differ from previous estimates.

Allowance for inventory loss

The Group recognizes an allowance for inventory losses due to factors such as obsolescence, physical damage, expiry etc. The estimation of such losses includes the consideration of factors including but not limited to introduction of new products or technology, past trends and both existing and emerging market conditions.

Provision for expected credit losses (ECLs) of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. The Company uses 365 days overdue as default past due (DPD) based on historical assumption. 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 customers' actual default in the future.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount for the different CGUs, are disclosed and further explained in note 6 & 7.

Defined benefit plan

The cost of the defined benefit plan and the present value of the obligation is determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employee turnover rate. 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.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the market yield on Government bonds. The mortality rate is based on publicly available mortality tables for the country. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates for the country. Further details about employee benefits obligations are provided in note 15.

Estimating provision for returns

The Group estimates provision for returns and variable considerations to be included in the transaction price for the sale of goods with volume rebates (where applicable).

The Group updates its assessment of provision for expected returns annually and accordingly the provision is adjusted respectively. Estimates of expected returns is sensitive to changes in circumstances and the Group's past experience regarding returns and may not be representative of customers' actual returns in the future.

2. BASIS OF PREPARATION (continued)

2.5 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Revenue recognition - Estimating stand-alone selling price – Customer loyalty programme

The Group estimates the stand-alone selling price of the loyalty points awarded under the customer loyalty programme. The stand-alone selling price of the loyalty points issued is calculated by multiplying the estimated redemption rate and 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 quarterly 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). The points issued have an expiry date of one year from the date of issuance.

Leases – Estimating the incremental borrowing rate

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

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. Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Provisions

Provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax / zakat rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount (if any) is recognised as finance cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Group consistently in preparing its consolidated financial statements except for the new and amended standards and interpretations as disclosed in note 4.

3.1 Current versus non-current classification

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

Assets

An asset is classified as current when:

- It is expected to be realized or intended to sell or consumed in normal operating cycle; or
- It is held primarily for the purpose of trading; or
- It is expected to be realized within twelve months after the reporting period; or
- It is 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.

Liabilities

A liability is current when:

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

All other liabilities are classified as non-current.

3.2 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests

in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Business combinations and goodwill (continued)

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

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

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

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

3.3 Foreign currencies

Transactions and balances

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 ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency, if any, are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Foreign currencies (continued)

Foreign operations

The assets and liabilities of foreign operations are translated to Saudi Riyals at exchange rates at the reporting date. Dividends received from foreign subsidiaries (if any), are translated at the exchange rate in effect at the transaction date and related currency translation differences are realized in the consolidated statement of other comprehensive income.

When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to the consolidated statement of profit or loss as part of the profit or loss on disposal. On the partial disposal (without loss of control) of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in the foreign currency translation reserve via other comprehensive income.

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic 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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are 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 recognised in the consolidated financial statements 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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Intangible assets

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

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

Intangible assets under development consists of costs incurred in relation to development of software which will be eventually transferred to intangible assets.

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

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 recognised in the consolidated statement of profit or loss when the asset is derecognised.

Intangible assets represent computer software and acquisition of pharmacies which have finite useful lives. The estimated rates of amortization of intangible assets are as follows:

Software	4 years
Acquisitions of pharmacies	4 years
Others	5 years

3.5 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as items (major components) of property and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in the consolidated statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Property and equipment (continued)

Recognition and measurement (continued)

Capital work in progress

Capital work-in-progress (“CWIP”) represents all costs relating directly to the ongoing projects in progress and is capitalized as property and equipment, when the project is completed. CWIP is carried at cost, less any recognized impairment loss.

Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation of these assets, on the same basis as other same class of assets, commences when the assets are available for their intended use.

Subsequent costs

The cost of replacing a part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in the consolidated statement of profit or loss as incurred.

Depreciation

Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of each item of property and equipment. Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively if required.

For impairment assessment of property and equipment, please refer note 6. Estimated useful lives of property and equipment are as follows:

	Years
• Buildings	10 - 25
• Leasehold improvement	4-8
• Furniture, fixture, office equipment & tools	4
• Machinery and equipment	4
• Vehicles	4
• Computers	4

Derecognition

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in consolidated statement of profit or loss and other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Investment properties

Investment properties is property held either to earn rental income or for capital appreciation or for both, as well as those held for undetermined future use but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost less accumulated depreciation and impairment loss, if any. Investment properties are depreciated on a straight-line basis over the estimated useful life of the respective assets.

Investment properties are derecognized either when they have been disposed off or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of profit or loss in the period of derecognition.

Transfers are made from investment properties to property and equipment only when there is a change in use evidenced by commencement of development with a view to sell. Such transfers are made at the carrying value of the property at the date of transfer.

The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

3.7 Leases

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

Group as a lessee

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

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

- Lands 5 to 20 years
- Pharmacy stores 5 to 10 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

Lease liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Leases (continued)

Lease liabilities(continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The unwinding component of finance cost is included in the consolidated statement of profit or loss.

The lease liabilities are presented as a separate line in the consolidated statement of financial position.

Short-term leases and leases of low-value assets

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

3.8 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.

i) Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables, the Group initially measures a financial asset at its fair value and in the case of a financial asset not carried at fair value through profit or loss, fair value plus transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price and for other trade receivables, that contain a significant financing component, the Group adjusts the transaction price in respect to the significant financing component.

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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

i) Financial assets (continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in following categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in consolidated statement of profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes cash and cash equivalents, trade receivables, employee loans and margin on letter of credit.

Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to consolidated statement of profit or loss.

Currently, the Group does not have any debt instruments designated at fair value through OCI.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are recognised as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

i) Financial assets (continued)

Derecognition

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

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

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

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

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade payables, due to related parties and lease liabilities.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

ii) Financial liabilities (continued)

Subsequent measurement (continued)

Financial liabilities at amortised cost (loans and borrowings)

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

Derecognition

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

iii) Offsetting of financial instruments

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

Impairment of financial and non-financial assets

Financial assets

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

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments are past due depending upon the contracted credit period. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

iii) Offsetting of financial instruments (continued)

Impairment of financial and non-financial assets (continued)

Non-financial assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax and income tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs 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.

Impairment losses are recognised in the consolidated statement of profit or loss in expense categories consistent with the function of the impaired asset.

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

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

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

3.9 Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is principally based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realizable value represents the estimated selling price for inventories less the costs necessary to make the sale. Any impairment loss arising as a result of bringing the inventories at their net realizable value is recognized in the consolidated statement of profit or loss.

3.10 Cash and cash equivalents

Cash and cash equivalents balances comprise of cash in hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

3.11 Provisions

Provisions are recognised 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. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the 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, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Pension and other post-employment benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post-employment benefits

The Group's obligation under employee end of service benefit is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Re-measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in employee costs in the consolidated statement of profit or loss (refer to note 15).

Obligation in respect of Nahdi Investment Company, where applicable are calculated in accordance with the U.A.E Labor Law and are based on current remuneration and cumulative years of service at the reporting date.

3.13 Zakat

The Group (entities registered in Kingdom of Saudi Arabia only) is subject to the Regulations of the Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia. Zakat is provided for in accordance with the Regulations of the Zakat, Tax and Customs Authority (ZATCA) in the Kingdom of Saudi Arabia and on accruals basis. The zakat charge is computed on the zakat base of the individual companies in the Group and is charged to consolidated statement of profit or loss and other comprehensive income. Any shortfall / excess on finalization of an assessment are accounted for in the year in which assessment is finalized.

Withholding tax

The Group withholds taxes on transactions with non-resident parties in accordance with ZATCA regulations, which is not recognized as an expense being the obligation of the counter party on whose behalf the amounts are withheld.

3.14 Value Added Tax ("VAT")

Revenues, expenses and assets are recognized net of the amount of Value Added Tax ("VAT") except:

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

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

3.15 Revenue from contracts with customers

The Group is engaged in the business of wholesale and retail trading of cosmetics, pharmaceutical products, special and healthy foods and medical equipment. Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. 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 disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in note 2.5.

The Group's recognition of revenue from each source of revenue is as follows:

Sale of goods

The Group's contracts with customers for the sale of medicines and pharmaceutical products generally include two performance obligations. The Group has concluded that revenue from sale of medicines and pharmaceutical products should be recognized at the point in time when control of the asset is transferred to the customer, generally on delivery.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Revenue from contracts with customers (continued)

Rights of return

Certain contracts provide a customer with a right to return the goods within a specified period, if the goods do not meet the quality criteria. Contracts in which a customer may return a defective product in exchange for a functioning product are evaluated in accordance with the IAS 37.

Loyalty points programme

The Group has a loyalty points programme, customer loyalty points, which allows customers to accumulate points that can be redeemed for free products. 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 recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

When estimating the stand-alone selling price of the customer 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 on a quarterly basis 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 2.5.

Revenue from loyalty points for registered customers in the loyalty program included separate performance obligation.

Revenue is allocated between the loyalty program and the other components of the sale using independent selling price. It is recognized as revenue when the Group has fulfilled its obligations to supply the discounted products or free goods under the terms of the program or when it is no longer probable that the points under the program will be redeemed.

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 recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of goods provide customers with volume rebates giving rise to variable consideration.

- *Volume rebates*

The Group provides volume rebates to certain customers (insurance companies) once their purchase during the period exceeds a threshold specified in the contract. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method as the selected method better predicts the amount of variable consideration driven by customers' rebate entitlement based on volume thresholds and purchase made by them during the period. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected rebates.

Other Income

Other income that are incidental to the Group's business model are recognized as income as they are earned or accrued. This represents profit from sale of scrapped inventory and other miscellaneous income.

Rental Income

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred or incentive in negotiating and arranging an operating lease is considered an integral part of the carrying amount of the leased contract and recognized on a straight-line basis over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Expenses

Cost of revenue

Cost of revenue represents all expenses directly attributable or incidental to the core operating activities of the Group.

Selling and distribution expenses

These include any costs incurred to carry out or facilitate selling activities of the Group. These costs typically include salaries of the sales staff, marketing, distribution and logistics expenses.

General and administrative expenses

These are operational expenses which are not directly related to the sale of goods. These also include allocations of general overheads which are not specifically attributed to cost of revenue.

Allocation of overheads between cost of revenue, selling and distribution and general and administrative expenses, where required, is made on a consistent basis.

3.17 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the Group (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

3.18 Cash dividend and non-cash distribution to partners of the Group

The Group recognises a liability to pay a dividend when the distribution is authorised and no longer at the discretion of the Group. As per the By-laws of the Company, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in shareholders' equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of profit or loss.

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first-time certain amendments, which are effective for annual periods beginning on or after 1 January 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

4.2 Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Company applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the year.

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

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the company applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

4.4 IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the financial statements of the Group as it is not a first-time adopter.

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

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Company applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial instruments during the year.

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

4.6 IAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the consolidated financial statements of the Group as it did not have assets in scope of IAS 41 as at the reporting date.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

5.1 IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

5.2 Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

5.3 Definition of Accounting Estimates - Amendments to IAS 8

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

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

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

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

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

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

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

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Group is currently assessing the impact of the amendments.

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

6. PROPERTY AND EQUIPMENT

	<i>Lands</i> <i>SR</i>	<i>Buildings</i> <i>SR</i>	<i>Leasehold</i> <i>improvement</i> <i>SR</i>	<i>Furniture, fixture,</i> <i>office equipment</i> <i>and tools</i> <i>SR</i>	<i>Machinery and</i> <i>equipment</i> <i>SR</i>	<i>Vehicles</i> <i>SR</i>	<i>Computers</i> <i>SR</i>	<i>Capital work in</i> <i>progress</i> <i>SR</i>	<i>Total</i> <i>SR</i>
Cost:									
At beginning of the year	74,429,935	44,420,692	974,084,044	56,415,541	176,987,858	1,303,681	133,141,028	285,131,408	1,745,914,187
Reclassification	-	-	6,064,947	4,330	(4,148,605)	-	3,045,377	(4,966,049)	-
Additions	-	3,251,298	159,658,871	8,020,270	22,471,879	-	22,084,298	34,780,143	250,266,759
Disposals	-	-	(919,836)	(1,051,531)	(2,315,809)	-	(17,699)	-	(4,304,875)
Transfer from capital work in progress	-	214,633,381	48,721,436	-	-	-	-	(263,354,817)	-
Transfer to Investment properties (note 7)	(16,257,000)	-	-	-	-	-	-	-	(16,257,000)
Write-offs	-	(15,710,680)	(52,756,695)	(3,924,277)	(28,466,072)	-	(11,524,593)	-	(112,382,317)
At end of the year	58,172,935	246,594,691	1,134,852,767	59,464,333	164,529,251	1,303,681	146,728,411	51,590,685	1,863,236,754
Accumulated depreciation and impairment:									
At beginning of the year	2,649,935	17,099,871	569,532,284	38,770,372	121,760,367	1,144,296	109,317,417	-	860,274,542
Reclassification	-	-	-	-	(3,644,813)	-	3,644,813	-	-
Depreciation charge for the year	-	13,228,892	136,536,880	8,374,405	20,992,058	71,500	11,991,209	-	191,194,944
Impairment reversal for the year	(2,649,935)	-	-	-	-	-	-	-	(2,649,935)
Disposals	-	-	(920,190)	(1,047,233)	(2,292,276)	-	(17,049)	-	(4,276,748)
Write-offs	-	(10,658,608)	(41,414,437)	(3,534,623)	(27,840,616)	-	(11,490,798)	-	(94,939,082)
At end of the year	-	19,670,155	663,734,537	42,562,921	108,974,720	1,215,796	113,445,592	-	949,603,721
<i>Net book value:</i>									
At 31 December 2022	58,172,935	226,924,536	471,118,230	16,901,412	55,554,531	87,885	33,282,819	51,590,685	913,633,033

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

6. PROPERTY AND EQUIPMENT (continued)

	<i>Lands</i> SR	<i>Buildings</i> SR	<i>Leasehold improvement</i> SR	<i>Furniture, fixture, office equipment and tools</i> SR	<i>Machinery and equipment</i> SR	<i>Vehicles</i> SR	<i>Computers</i> SR	<i>Capital work in progress</i> SR	Total SR
Cost:									
At beginning of the year	126,241,985	46,413,462	867,965,003	51,421,761	159,354,272	1,303,681	126,065,524	186,111,300	1,564,876,988
Additions	-	63,303	123,913,933	7,486,533	22,795,317	-	7,093,726	121,221,502	282,574,314
Disposals	-	(2,056,073)	(30,162,601)	(2,492,753)	(5,161,731)	-	(18,222)	-	(39,891,380)
Transfer from capital work in progress	-	-	18,927,520	-	-	-	-	(18,927,520)	-
Transfer to Intangible assets (note 8)	-	-	-	-	-	-	-	(3,273,874)	(3,273,874)
Transfer to Investment properties (note 7)	(51,812,050)	-	-	-	-	-	-	-	(51,812,050)
Write-offs	-	-	(6,559,811)	-	-	-	-	-	(6,559,811)
At end of the year	74,429,935	44,420,692	974,084,044	56,415,541	176,987,858	1,303,681	133,141,028	285,131,408	1,745,914,187
Accumulated depreciation and impairment:									
At beginning of the year	22,868,985	14,469,067	472,536,607	33,381,652	106,379,252	1,032,168	101,911,092	-	752,578,823
Depreciation charge for the year	-	2,630,804	120,565,181	7,709,417	20,371,803	112,128	9,462,322	-	160,851,655
Reversal of impairment related to transfer to Investment properties (note 7)	(6,696,050)	-	-	-	-	-	-	-	(6,696,050)
Impairment reversal for the year	(13,523,000)	-	-	-	-	-	-	-	(13,523,000)
Disposals	-	-	(23,569,504)	(2,320,697)	(4,990,688)	-	(2,055,997)	-	(32,936,886)
At end of the year	2,649,935	17,099,871	569,532,284	38,770,372	121,760,367	1,144,296	109,317,417	-	860,274,542
<u>Net book value:</u>									
At 31 December 2021	71,780,000	27,320,821	404,551,760	17,645,169	55,227,491	159,385	23,823,611	285,131,408	885,639,645

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

6. PROPERTY AND EQUIPMENT (continued)

a) The fair value of the Group's parcel of land as at 31 December 2022 (1 parcel of land) was valued at SR 62.3 million (31 December 2021: SR 71.78 million (2 parcels of land)) which was determined by an independent external real estate evaluator Abdullah Al Kathiri Real Estate Evaluation Office (2021: Abdullah Al Kathiri Real Estate Evaluation Office) accredited by the Saudi Authority for Accredited Valuers ("TAQEEM") and they have appropriate qualifications and relevant experience in the fair value measurement of properties in the relevant locations.

The fair value of the lands has been determined based on income method (RLV), a valuation model in accordance with that recommended by the Saudi Authority for Accredited Valuers was applied. Under this method, the value of land is arrived by calculating the development cost including the profit and subtracting the build cost, construction cost and other components of cost.

Based on the difference between the carrying value and the fair value of the land as at 31 December 2022, a reversal of impairment loss amounting to SR 2.7 million was recorded in the Group's consolidated financial statements for the year ended 31 December 2022 (31 December 2021: SR 13.5 million).

b) During the year, the Group transferred substantial portion of distribution center from capital work in progress to the respective class of assets in property and equipment as it started its commercial operations. An amount of SR 263.3 million in buildings and leasehold improvements asset class has been capitalized in this regard.

c) The depreciation charge for the year has been allocated as follows:

	<i>31 December</i> <i>2022</i> <i>SR</i>	<i>31 December</i> <i>2021</i> <i>SR</i>
Selling and distribution expenses (note 21)	172,490,336	145,141,886
General and administrative expenses (note 22)	12,103,028	10,676,566
Cost of revenue (note19)	6,601,580	5,033,203
	<u>191,194,944</u>	<u>160,851,655</u>

d) The title deeds for the parcel of land is in the name of the Company.

e) Capital work in progress relates to the expenditure incurred on leasehold improvements amounting to SR 13.43 million and for the construction of the clinics amounting to SR 21.35 million which are expected to be capitalized in the following year upon completion and when it is ready for the intended use.

f) Movement of impairment loss included in "accumulated depreciation/impairment" is as follows;

	<i>31 December</i> <i>2022</i> <i>SR</i>	<i>31 December</i> <i>2021</i> <i>SR</i>
At the beginning of the year	2,649,935	22,868,985
Impairment reversal for the year	(2,649,935)	(13,523,000)
Transfer of impairment loss to investment properties (note 7)	-	(6,696,050)
At the end of the year	<u>-</u>	<u>2,649,935</u>

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

7. INVESTMENT PROPERTIES

	<i>31 December 2022</i>	<i>31 December 2021</i>
Cost:		
At beginning of the year	246,706,234	194,894,184
Transfer from property and equipment (note 6)	16,257,000	51,812,050
Total	262,963,234	246,706,234
Accumulated impairment loss:		
At beginning of the year	16,621,234	15,894,184
Loss on derecognition of investment property	7,062,411	-
Reversal of impairment loss for the year	(14,526,595)	(5,969,000)
Transfer of impairment loss from property and equipment (note 6)	-	6,696,050
At end of the year	9,157,050	16,621,234
Net book value	253,806,184	230,085,000

The Group's investment properties mainly represents the parcels of land in KSA which are currently held for undetermined future use. During the year, the Group transferred one parcel of land (31 December 2021: one parcel of land) from property and equipment to investment properties at cost (31 December 2021: cost less accumulated impairment loss). The fair value of the Group's investment properties as at 31 December 2022 was valued at SR 310 million (31 December 2021: SR 230 million).

The fair value of the Group's investment properties, as at 31 December 2022 was determined on the basis of the valuation exercise carried out by an independent external real estate evaluator Abdullah Al Kathiri Real Estate Evaluation Office (2021: Abdullah Al Kathiri Real Estate Evaluation Office) accredited by the Saudi Authority for Accredited Valuers ("TAQEEM") and they have appropriate qualifications and relevant experience in the fair value measurement of properties in the relevant locations.

The fair value of the lands has been determined based on income method (RLV), a valuation model in accordance with that recommended by the Saudi Authority for Accredited Valuers was applied. Under this method, the value of land is arrived by calculating the development cost including the profit and subtracting the build cost, construction cost and other components of cost.

Based on the difference between the carrying value and the fair value of the parcels of land as at 31 December 2022, a reversal of impairment loss amounting to SR 14.53 million was recorded in the Group's consolidated financial statements for the year ended 31 December 2022 (31 December 2021: SR 5.97 million).

During the year ended 31 December 2022, the management of the Group realized that a portion of one of the lands owned by the Group was partially used in the infrastructure by a Government Body which is under assessment at the reporting date. Based on the carrying value of the revised area of land, an impairment loss amounting to SR 7.06 million was recorded in the Group's consolidated financial statements for the year ended 31 December 2022.

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

7. INVESTMENT PROPERTIES (continued)

The valuation has been undertaken using the capitalization of income method based on significant unobservable inputs which includes:

Capitalization rates	Reflects current market sentiment to invest in that particular property given the actual location, size and quality of the property and taking into account market data at the valuation date.
Discount rate	reflecting the inherent risk associated with the development of a real estate asset. Given the uncertainty of future (revenue and cost) projections, a discount rate is adopted to reflect the risk in achieving assumed projections.
Disposal period	reflecting the assumed period of time it would take in order to dispose of an asset.

There has been no major changes to the valuation technique during the year.

The Group uses the following hierarchy for determining and disclosing the fair values of its investment properties by valuation techniques:

	<i>Level 1</i> <i>SR</i>	<i>Level 2</i> <i>SR</i>	<i>Level 3</i> <i>SR</i>	<i>Total</i> <i>SR</i>
31 December 2022	-	-	309,638,000	309,638,000
31 December 2021	-	-	230,085,000	230,085,000

Any significant movement in the assumptions used for fair valuation of investment properties such as discount rate, capitalization rates etc. would result in significantly lower / higher fair value of these assets.

All investment properties of the Group are currently held for undetermined future use.

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

8. INTANGIBLE ASSETS

	<i>Software</i> SR	<i>Acquisition of pharmacies</i> SR	<i>Others</i> SR	<i>Total</i> SR
Cost:				
At beginning of the year	155,734,131	118,334,617	8,263,755	282,332,503
Additions	23,352,329	-	540,000	23,892,329
Write offs	-	(10,737,860)	(121,075)	(10,858,935)
Transfer from capital work in progress (note 6)	3,273,874	-	-	3,273,874
At 31 December 2021	182,360,334	107,596,757	8,682,680	298,639,771
Additions	22,216,349	-	2,750,000	24,966,349
Write offs	(581,191)	(3,805,321)	(1,238,361)	(5,624,873)
At 31 December 2022	203,995,492	103,791,436	10,194,319	317,981,247
Accumulated amortization:				
At beginning of the year	119,005,447	118,334,617	3,628,905	240,968,969
Amortization	21,020,057	-	3,182,449	24,202,506
Write offs	-	(10,737,860)	-	(10,737,860)
At 31 December 2021	140,025,504	107,596,757	6,811,354	254,433,615
Amortization charge for the year	20,893,142	-	1,169,725	22,062,867
Write offs	(577,064)	(3,805,321)	(1,193,983)	(5,576,368)
At 31 December 2022	160,341,582	103,791,436	6,787,096	270,920,114
<i>Net book value:</i>				
At 31 December 2022	43,653,910	-	3,407,223	47,061,133
At 31 December 2021	42,334,830	-	1,871,326	44,206,156

(a) The amortization charge for the year has been allocated as follows:

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
General and administrative expenses (note 22)	14,992,465	16,387,582
Selling and distribution expenses (note 21)	7,070,402	7,814,924
	22,062,867	24,202,506

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group has lease contracts for various items of lands and pharmacy stores used in its operations. Lease of lands generally have lease term of 5 to 20 years while lease of pharmacy stores has lease term of 5 to 10 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. There are several lease contracts that include extension and termination options. The Group applies the 'short-term lease' recognition exemptions for these leases.

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the year:

(a) Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	<i>Lands</i> <i>SR</i>	<i>Pharmacy stores</i> <i>SR</i>	<i>Total</i> <i>SR</i>
As at 1 January 2022	84,401,716	1,243,216,306	1,327,618,022
Additions during the year	46,806,536	362,847,009	409,653,545
Modifications during the year	(16,882,617)	(69,538,692)	(86,421,309)
Termination during the year	-	(100,703,305)	(100,703,305)
Depreciation expense	(11,890,541)	(371,494,618)	(383,385,159)
As at 31 December 2022	102,435,094	1,064,326,700	1,166,761,794
As at 1 January 2021	70,139,901	1,136,376,624	1,206,516,525
Additions during the year	21,611,314	373,546,845	395,158,159
Modifications during the year	-	161,256,240	161,256,240
Termination during the year	-	(48,866,765)	(48,866,765)
Depreciation expense	(7,349,499)	(379,096,638)	(386,446,137)
As at 31 December 2021	84,401,716	1,243,216,306	1,327,618,022

(b) Set out below are the carrying amounts of lease liabilities and the movements during the year:

	<i>31 December</i> <i>2022</i> <i>SR</i>	<i>31 December</i> <i>2021</i> <i>SR</i>
As at 1 January	1,359,057,190	1,235,078,508
Additions during the year	409,653,545	395,158,159
Impact of lease termination	(97,220,795)	(50,368,138)
Modifications during the year	(86,421,309)	161,256,240
Accretion of interest during the year	50,471,426	47,633,667
Payments during the year	(467,435,205)	(429,701,246)
As at 31 December	1,168,104,852	1,359,057,190
Current	375,874,436	367,415,040
Non-current	792,230,416	991,642,150

The additions, terminations and modifications during the year happened in normal course of business, except for termination of lease contracts related to stores that were subject to expropriation by the Government.

The maturity analysis of lease liabilities is disclosed in note 24.

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

(c) The following are the amounts recognised in the consolidated statement of profit or loss:

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
Depreciation expense of right-of-use assets (note 21 & 22)	383,385,159	386,446,137
Interest expense on lease liabilities	50,471,426	47,633,667
Expense relating to short-term leases	7,451,617	-
Total amount recognised in consolidated statement of profit or loss	<u>441,308,202</u>	<u>434,079,804</u>

The Group had total cash outflows for leases of SR 474.9 million in 2022 (SR 428.8 million in 2021). The Group also had non-cash additions to right-of-use assets and lease liabilities of SR 50.5 million in 2022 (SR 47.6 million in 2021).

The depreciation charge for the year has been allocated as follows:

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
Selling and distribution expenses (note 21)	376,824,711	378,444,674
General and administrative expenses (note 22)	6,560,448	8,001,463
	<u>383,385,159</u>	<u>386,446,137</u>

10. INVENTORIES

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
Inventories	1,325,055,667	1,241,251,497
Less: Provision for slow moving and obsolete inventories	(142,221,090)	(124,769,595)
	<u>1,182,834,577</u>	<u>1,116,481,902</u>

Movement in the provision for slow moving and obsolete inventories is as follows:

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
At the beginning of the year	124,769,595	195,170,998
Charge/ (reversal) for the year (a)	60,660,550	(53,412,577)
Written off during the year	(43,209,055)	(16,988,826)
At the end of the year	<u>142,221,090</u>	<u>124,769,595</u>

(a) The reversal was related primarily to the reversal of provision recognised in respect of COVID related inventory in the previous years which were consumed during the prior year.

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

11. TRADE RECEIVABLES

	<i>31 December</i> 2022 SR	<i>31 December</i> 2021 SR
Trade receivables	138,616,472	146,997,993
Less: Allowance for expected credit losses (see note below)	(8,414,793)	(6,714,875)
	130,201,679	140,283,118

Movement in the allowance for expected credit losses of receivables is as follows:

	<i>31 December</i> 2022 SR	<i>31 December</i> 2021 SR
At the beginning of the year	6,714,875	9,620,955
Charge for the year	3,189,779	5,868,027
Written off during the year	(1,489,861)	(8,774,107)
At the end of the year	8,414,793	6,714,875

Trade receivables are non-interest bearing and are generally settled on terms of 60 days.

Before accepting any customer, the Group evaluates the credit quality of the potential customers individually and defines the maximum credit period and credit limits. The credit period for the Group's operations normally ranges between 30 to 60 days which is either contractually agreed or internally defined.

The Group always measures the allowance for trade receivables at an amount equal to lifetime ECL except for a class of customers where the Group measures loss at an amount equal to 12 months ECL. The expected impairment loss (i.e. Lifetime ECL) on trade receivables is estimated using a provision matrix by reference to past default experience of the group of debtors with similar loss patterns and where applicable an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has recognized an allowance of 100% against all trade receivables over 365 days past due because historical experience has indicated that these receivables are generally not recoverable. There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

12. PREPAYMENTS AND OTHER CURRENT ASSETS

	<i>31 December</i> 2022 SR	<i>31 December</i> 2021 SR
Prepayments	56,920,605	48,345,156
Employees' loans	48,405,056	45,331,048
Advance payments to suppliers	27,767,484	28,993,579
Value added tax (VAT)	26,371,543	1,243,894
Margin on letter of credits	2,527,705	2,708,720
Other current assets	12,300,338	14,943,885
	174,292,731	141,566,282

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

13. CASH AND CASH EQUIVALENTS

	<i>31 December</i> <i>2022</i> <i>SR</i>	<i>31 December</i> <i>2021</i> <i>SR</i>
Cash at banks	1,005,470,436	339,430,212
Cash on hand	70,841,523	61,614,235
	<u>1,076,311,959</u>	<u>401,044,447</u>

At each reporting date, all bank balances are assessed to have low credit risk as they are held with reputable and high credit rating domestic and international banking institutions and there has been no history of default with any of the Group bank balance. Therefore, the probability of default based on forward looking factors and any loss given defaults are considered to be negligible.

14. SHAREHOLDERS' EQUITY

(a) Share capital

The Company's capital is divided into 130,000,000 shares (31 December 2021: 130,000,000 shares) with a nominal value of SR 10 each (31 December 2021: SR 10 each)

On 12 September 2021 (corresponding to 5 Safar 1443H), shareholders of the Parent Company resolved to increase the Company's capital from SR 1,000,000,000 to SR 1,300,000,000 by transfer of SR 300,000,000 from retained earnings account to capital account in the existing shareholding proportion resulting in an increase in the number of shares from 1,000,000 to 130,000,000 and decrease in PAR value of the shares to SR 10 (31 December 2020: SR 1,000). As a result, there were no changes in the percentage of shareholding of the shareholders. The legal formalities were completed on 11 October 2021 (corresponding to 5 Rabi' I 1443H).

(b) Statutory reserve

In accordance with the Companies law and Parent Companies' By-laws, the Parent Company must set aside 10% of its annual net income as the statutory reserve until it reaches 30% of the share capital. The reserve is not available for distribution.

(c) Dividends

On 8 August 2022G (corresponding to 10 Muharram 1444H), the Board of Directors announced the distribution of SR 300,300,000 as cash dividends (SR 2.31 per share) for the first half of the fiscal year 2022 which represents 23% of the nominal value of the shares (31 December 2021: SR 1,260 million).

15. EMPLOYEE BENEFIT LIABILITIES

The Group operates an approved unfunded employees' end of service benefits plan ("EOSB") for its employees as required by the Saudi Arabian Labor Law. The following table represents the movement of the defined benefits obligation:

	<i>31 December</i> <i>2022</i> <i>SR</i>	<i>31 December</i> <i>2021</i> <i>SR</i>
Defined benefits obligation at beginning of the year	386,732,043	329,487,592
Current service cost	57,718,499	53,390,239
Interest cost on defined benefits obligation	10,711,750	7,062,738
Actuarial (gain) / loss on the obligation	(52,487,032)	27,690,483
Transferred out	-	(531,361)
Payments made during the year	(21,814,010)	(30,367,648)
Defined benefit obligations at the end of the year	<u>380,861,250</u>	<u>386,732,043</u>

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

15. EMPLOYEE BENEFIT LIABILITIES (continued)

15.1 Actuarial assumptions

	<i>31 December 2022</i>	<i>31 December 2021</i>
Discount rate	4.30%	2.85%
Future salary growth/expected rate of salary increase	4.80%	3.75%
Mortality rate	0.25%	0.25%
Retirement age	60 years	60 years

The quantitative sensitivity analysis for principal assumptions is as follows:

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
Discount rate:		
+1.00% increase	(28,228,741)	(35,637,852)
-1.00% decrease	32,530,367	42,136,560
Salary increase rate:		
+1.00% increase	33,082,811	42,333,532
-1.00% decrease	(29,251,104)	(36,518,755)

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 analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses 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 from one another.

The weighted average duration of the defined benefit obligation is 7.98 years (31 December 2021: 10.06 years)

The following is the breakup of the actuarial (gain)/loss:

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
Financial assumptions	(33,779,276)	21,376,312
Experience adjustment	(15,168,085)	7,102,770
Demographic adjustment	(3,539,671)	26,792
	<u>(52,487,032)</u>	<u>28,505,874</u>

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

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
Within the next 12 months (next annual reporting period)	68,622,736	29,215,783
Between 2 and 5 years	231,534,324	91,760,954
Between 6 and 10 years	242,287,238	119,513,853
Year 11 & above	463,483,885	253,701,959
Total expected payments	<u>1,005,928,183</u>	<u>494,192,549</u>

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

16. TRADE PAYABLES

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
Trade payables (note a)	637,165,960	483,995,057

(a) Trade payables are non-interest bearing and are normally settled on 30-150 days term.

17. ACCRUALS AND OTHER LIABILITIES

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
<u>Non-current</u>		
Staff accruals (note a)	20,044,876	19,094,000
<u>Current</u>		
Staff accruals (note a)	184,727,793	165,051,410
Provision for closure of pharmacies	29,543,446	20,741,183
Due to operating pharmacies – agents	20,995,739	22,613,104
Accrued expenses	18,160,435	20,434,100
Deferred revenue	12,996,252	18,179,794
Value added tax (VAT) payable	-	5,234,163
Other liabilities (note b)	122,370,409	85,323,281
	388,794,074	337,577,035

(a) This includes incentives for the executive employees as part of long-term retention plan with the Group.

(b) This primarily includes the marketing accruals and consultancy services accruals.

18. ZAKAT

The movement in the zakat provision during the year is as follows:

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
At the beginning of the year	96,873,748	98,053,920
Provision for the current year	50,113,578	44,738,103
Payment during the year	(40,439,425)	(45,918,275)
At the end of the year	106,547,901	96,873,748

Status of assessments

Al Nahdi Medical Company

Zakat assessments have been agreed with the Zakat, Tax and Customs Authority (“ZATCA”) up to 2014. The zakat returns for the years from 2015 to 2021 are currently under review by the ZATCA.

For the year ended 31 December 2015

Zakat assessment was received for the year above amounting to SR 6,017,417 and the Group has submitted an objection to ZATCA during the statutory period which is currently under review by the ZATCA. Management has provided for a provision in this regard.

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

18. ZAKAT (continued)

For the years ended 31 December 2016 to 2019

The Group received zakat assessments for these years amounting to SR 7,617,444 and the Group is in the process of submitting an objection to ZATCA within the statutory period. Management has provided for a provision in this regard.

For the year ended 31 December 2020 to 2021

The Group submitted zakat return for the year and no zakat assessment was received. The Group received a valid zakat certificate until 30 April 2023.

For the year ended 31 December 2022

The zakat status remains as mentioned above and has not changed in the year ended 31 December 2022.

Subsidiaries

Sakhaa Golden Company

Zakat assessments have been agreed with the Zakat, Tax and Customs Authority ("ZATCA") up to 2019.

For the year ended 31 December 2020 to 2021

The Company submitted zakat return for the year and no zakat assessment was received. The Company received a valid zakat certificate until 30 April 2023.

For the year ended 31 December 2022

The zakat status remains as mentioned above and has not changed in the year ended 31 December 2022.

Al Nahdi Care

For the years ended 31 December 2019 to 2021

The Company submitted zakat return for the years and no zakat assessment was received. The Company received a valid zakat certificate until 30 April 2023.

For the year ended 31 December 2022

The zakat status remains as mentioned above and has not changed in the year ended 31 December 2022.

19. COST OF REVENUE

	<i>31 December</i> 2022 SR	<i>31 December</i> 2021 SR
Cost of goods sold	4,963,754,963	4,732,732,917
Provision/(reversal) for slow moving inventory, net (note 10)	60,660,550	(53,412,577)
Employee costs	44,579,363	31,097,512
Inventory write off	16,843,657	30,580,562
Depreciation of property and equipment (note 6)	6,601,580	5,033,203
Cost of operated pharmacies	270,000	750,000
Other expenses	2,585,387	14,752,647
	5,095,295,500	4,761,534,264

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

20. OTHER OPERATING INCOME, NET

	<i>31 December</i> 2022 SR	<i>31 December</i> 2021 SR
Activities to vendors and customers	24,498,892	-
Reversal of accrued expenses/ recovery of operating pharmacy costs	11,504,083	27,707,000
Impairment reversal of property and equipment (note 6)	2,649,935	13,523,000
Rental income	2,377,762	2,378,765
Gain from disposal of property and equipment	106,982	106,275
Scrap sale of inventory	-	1,683,132
Other	10,418,781	26,287,427
	51,556,435	71,685,599

21. SELLING AND DISTRIBUTION EXPENSES

	<i>31 December</i> 2022 SR	<i>31 December</i> 2021 SR
Employee costs	1,289,766,616	1,262,761,615
Depreciation of right-of-use assets (note 9)	376,824,711	378,444,674
Depreciation (note 6)	172,490,336	145,141,886
Utilities	71,284,659	60,243,254
Advertising and promotion	67,810,301	54,917,503
Repair and maintenance	32,036,774	28,462,137
Attestation of governmental expenses	22,139,474	24,876,444
Loading and packing expenses	19,030,597	16,847,517
Business events	8,707,801	5,010,344
Communications	8,147,742	6,092,057
Amortization (note 8)	7,070,402	7,814,924
Others	163,628,564	173,752,503
	2,238,937,977	2,164,364,858

22. GENERAL AND ADMINISTRATIVE EXPENSES

	<i>31 December</i> 2022 SR	<i>31 December</i> 2021 SR
Employee costs	190,666,181	170,296,450
Repair and maintenance	38,144,533	30,841,907
Legal and professional	15,779,711	10,956,081
Amortization (note 8)	14,992,465	16,387,582
Depreciation (note 6)	12,103,028	10,676,566
Depreciation of right-of-use assets (note 9)	6,560,448	8,001,463
Communications	5,724,971	3,418,646
Attestation and government expenses	5,346,214	4,718,018
Board of directors' remunerations	4,600,004	4,216,820
Expected credit losses of trade receivables (note 11)	3,189,779	5,868,027
Others	33,826,039	27,051,389
	330,933,373	292,432,949

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

23. EARNINGS PER SHARE

The earnings per share calculation is given below:

	<i>31 December</i> <i>2022</i>	<i>31 December</i> <i>2021</i>
	<i>SR</i>	<i>SR</i>
Net profit for the year	887,811,814	812,528,628
Weighted average number of ordinary shares	130,000,000	130,000,000
Earnings per share – basic and diluted	6.83	6.25

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

24. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Group's principal financial liabilities includes trade payables, due to related parties and lease liabilities. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade receivables, employee loans, cash and cash equivalents and margin on letter of credit.

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risks, currency risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Group's financial performance.

Market risk

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

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Group is subject to interest rate risk on its interest bearing assets. The management manages the Group's interest rate risks by monitoring changes in interest rates in the currencies in which its interest bearing assets are denominated (if any).

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. 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).

Credit risk

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the 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 and any sales to major customers are generally covered by letters of promissory notes. At 31 December 2022, the Group had two customers (31 December 2021: two customers) which accounted for approximately 72% (31 December 2021: 73%) of all trade receivable balances.

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

24. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Credit risk (continued)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. 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. Additionally, minor receivables are grouped into homogenous Group and analysed for impairment collectively. The maximum amount of exposure is the carrying amount of the receivable disclosed in note 11. Promissory notes and other forms of security, if any, are considered integral part of trade receivables and considered in the calculation of impairment.

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's executive management on a regular basis and may be updated throughout the year. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

On that basis, the expected credit loss as at 31 December was determined as follows:

Receivable from customers

Ageing	2022			2021		
	Gross carrying amount SR	Expected credit loss range %	Loss allowance SR	Gross carrying amount SR	Expected credit loss range %	Loss allowance SR
Current (Not due)	38,242,069	-	-	19,930,385	1%	76,303
0-90 Days Overdue	50,930,255	27%	2,305,262	77,468,238	35%	2,310,823
91-180 Days Overdue	36,522,524	2%	181,812	33,146,661	42%	2,839,321
181-360 Days Overdue	12,903,527	25%	2,090,032	15,618,210	17%	1,167,899
Over 360 Days Overdue	18,097	46%	3,837,687	834,499	5%	320,529
	138,616,472		8,414,793	146,997,993		6,714,875

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by the treasury department by monitoring the maturity profile of the Group's financial instruments to ensure that adequate liquidity is maintained or made available, as necessary to the Group. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowings or reliance on a particular market in which to realize liquid assets. The following is the contractual undiscounted maturity analysis of the financial liabilities of the Group. The Group does not hold financial assets for managing liquidity risk. Hence, these risks have not been considered for maturity analysis.

The following is the contractual undiscounted maturity analysis of the financial liabilities of the Group. The Group does not hold financial assets for managing liquidity risk. Hence, these risks have not been considered for maturity analysis. The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

31 December 2022	Within 1 year SR	1 to 5 years SR	After 5 years SR	Total SR
Trade payables	640,035,617	-	-	640,035,617
Lease liabilities	521,890,949	1,044,627,191	191,835,721	1,758,353,861
	1,161,926,566	1,044,627,191	191,835,721	2,398,389,478

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

24. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2021	Within 1 year SR	1 to 5 years SR	After 5 years SR	Total SR
Trade payables	483,995,057	-	-	483,995,057
Lease liabilities	46,034,935	437,693,448	1,690,375,381	2,174,103,764
	<u>530,029,992</u>	<u>437,693,448</u>	<u>1,690,375,381</u>	<u>2,658,098,821</u>

25. CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued share capital, statutory reserve and retained earnings attributable to the equity holders of the Group. The primary objective of the Group's capital management is to maximize the Shareholders' value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus debt. The Group is currently not exposed to any gearing risk as it has not obtained any borrowings.

26. FAIR VALUE MEASUREMENT

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing 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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

26. FAIR VALUE MEASUREMENT (continued)

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There were no transfers among the levels during the period.

The management assessed that the fair value of cash and cash equivalents, trade and other receivables, trade payables and lease liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

27. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent the partners, directors and key management personnel of the Group, affiliates (the Company and the entities are members of the same group), and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Following is the list of related party transactions and balances of the Group:

<u>Related party</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Transactions</u>	
			<u>For the Year ended</u>	
			<u>31 December</u>	<u>31 December</u>
			<u>2022</u>	<u>2021</u>
			<u>SR</u>	<u>SR</u>
Khota Al Khair for Commercial Services Group Limited	Affiliate	Expenses paid on behalf of the affiliate	51,750	-

Key management compensation

Compensation for key management is as follows:

	<u>31 December</u>	<u>31 December</u>
	<u>2022</u>	<u>2021</u>
	<u>SR</u>	<u>SR</u>
Salaries and other benefits*	3,500,000	3,199,827
Post-employment benefits	18,071,305	7,023,243
	<u>21,571,305</u>	<u>10,223,070</u>

*The board of directors of the Group resolved to restrict the board of directors' remuneration as per the regulatory requirement as a result of the IPO process.

The amounts disclosed in the above table are the amounts recognised as an expense during the year related to key management personnel (including bonuses).

In addition to above, the Group also recognized the incentives for the executive employees as part of long-term retention plan with the Group as disclosed in note 17 (a).

Related party balances are generally unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2022, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (31 December 2021: nil). This assessment is undertaken each financial year by examining the financial position of the related parties and the market in which the related party operates.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

28. SEGMENT INFORMATION

The Group operates in the KSA and the UAE and is engaged in the sale of cosmetics, medical materials, as well as medical equipment through pharmacies. It also operates specialized medical clinics through one of its subsidiaries. The Group's operations in the UAE are considered relatively insignificant, and accordingly, the Group does not present business sector information at the geographical level. Also, the Group's business of operating specialized medical clinics is considered relatively insignificant.

The Group has two operating segments, Front Shop and Pharma. The Group's segments maintain separate financial information, and the Group's chief operating decision maker (the "CODM") evaluates the segments' revenue on a regular basis in deciding how to allocate resources among the segments and in assessing segment performance. The CODM evaluates the performance of the Group's segments based on revenue. The Group uses revenue as its principal measure of segment performance as it enhances the Group's ability to compare past financial performance with current performance and analyze underlying business performance and trends. The operating costs could not be separated by the reported segments and hence presented in total. The following table presents information for the Group's operating segments for the year ended 31 December 2022 and 31 December 2021, respectively.

Year ended 31 December 2022	Front Shop	Pharma	SR Others	Total
Revenue	4,278,503,386	4,263,058,013	74,626,417	8,616,187,816
<i>Unallocated income (expenses)</i>				
Cost of revenue				(5,095,295,500)
Other operating income, net				51,556,435
Selling and distribution expenses				(2,238,937,977)
General and administrative expenses				(330,933,373)
Finance costs				(79,375,137)
Finance income				12,128,998
Loss against write off for old distribution centre				(6,950,568)
Other income, net				2,080,514
Reversal of impairment on investment properties				14,526,595
Loss on derecognition of investment properties				(7,062,411)
Profit for the year before zakat				937,925,392
Zakat				(50,113,578)
Net profit for the year				887,811,814

Year ended 31 December 2021	Front Shop	Pharma	SR Others	Total
Revenue	4,299,339,944	3,732,740,770	34,134,665	8,066,215,379
<i>Unallocated income (expenses)</i>				
Cost of revenue				(4,761,534,264)
Other operating income, net				71,685,599
Selling and distribution expenses				(2,164,364,858)
General and administrative expenses				(292,432,949)
Finance costs				(78,881,567)
Finance income				2,962,022
Other income, net				7,648,369
Reversal of impairment on investment properties				5,969,000
Profit for the year before zakat				857,266,731
Zakat				(44,738,103)
Net profit for the year				812,528,628

Al Nahdi Medical Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

29. COMMITMENTS AND CONTINGENCIES

As at 31 December 2022, the Group has commitments of SR 65.1 million (31 December 2021: SR 101.15 million) relating to capital expenditures, which also includes an agreement with a consulting Group to implement the decorations of pharmacies, implement the new stores, construction of distribution centre. It also includes commitments pertains to letter of credit and letter of guarantee.

30. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation of the current year. These changes have been made to improve the quality of information presented. Such reclassification changes do not affect previously reported profit or equity.

Reclassification in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022 is summarised below:

	<i>As previously reported SR</i>	<i>Reclassification SR</i>	<i>As currently reported SR</i>
Selling and distribution expenses	2,149,404,794	14,960,064	2,164,364,858
General and administrative expenses	307,393,013	(14,960,064)	292,432,949

31. BRANCHES

The Company has the following branches at the reporting date:

Sr. No.	Location of Branch	Commercial Registration Number	Sr. No.	Location of Branch	Commercial Registration Number
1	Jeddah	4030053868	25	Al Qunfotha	4603150305
2	Jeddah	4030124053	26	Arar	3450174719
3	Jeddah	4030158333	27	Besha	5851874572
4	Jeddah	4030150171	28	Buraida	1131304702
5	Jeddah	4030158630	29	Dammam	2050050664
6	Jeddah	4030111904	30	Dammam	2050046442
7	Jeddah	4030118789	31	Dammam	2050045579
8	Jeddah	4030298132	32	Dhahran	2052002695
9	Jeddah	4030143265	33	Hafr Albaten	2511007816
10	Jeddah	4030121733	34	Hail	3350147306
11	Jeddah	4030477660	35	Jazan	5900120635
12	Riyadh	1010187031	36	Khamis Mushayt	5855023957
13	Riyadh	1010440211	37	Khamis Mushayt	5855071782
14	Riyadh	1010444001	38	Khobar	2051052304
15	Riyadh	1010461685	39	Makkah	4031044920
16	Riyadh	1010239521	40	Makkah	4031093616
17	Abha	5850031875	41	Makkah	4031044923
18	Al Ahsaa	2031102806	42	Makkah	4031263468
19	Al Baha	5800104904	43	Najran	5950117233
20	Al Madina	4650035174	44	Qura Al Ahsaa	2250062550
21	Al Madina	4650286705	45	Skaka	3400119081
22	Al Madina	4650032936	46	Tabuk	3550131585
23	Al Madina	4650032911	47	Taif	4032023921
24	Al Mubarraz	2252032301	48	Taif	4032048995

32. EVENTS AFTER THE REPORTING PERIOD

In the opinion of management, there have been no significant subsequent events since the year ended 31 December 2022, which would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.

33. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised to issue by the Board of Directors on 19 March 2023G (corresponding to 27 Sha'ban 1444H).