

**Al Dawaa Medical Services Company**

**(A Saudi Joint Stock Company)**

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

**FOR THE YEAR ENDED 31 DECEMBER 2022**

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

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31 December 2022

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**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF AL DAWAA MEDICAL SERVICES COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**Opinion**

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

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

**Basis for Opinion**

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. 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 DAWAA MEDICAL SERVICES COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Change in estimated useful lives of property and equipment</i></p> <p>As at 31 December 2022, the carrying value of property and equipment amounts to Saudi Riyals 941.8 million and are carried at cost, net of accumulated depreciation and impairment losses, if any.</p> <p>The Group management determines the residual values and estimated useful lives for calculating depreciation and reassess, on an annual basis, as required by the International Accounting Standard 16 'Property, plant and equipment' (IAS 16) as endorsed in the Kingdom of Saudi Arabia. These estimates and judgements are made after considering multiple factors including historical and future anticipated usage and movability of similar assets.</p> <p>In addition to the Group management's assessment of the useful lives of property and equipment, the Group management also used external specialist. Based on the review carried out for the year ended 31 December 2022, the Group management revised the range of estimated useful lives of only 'leasehold improvements' category from 5 - 6.67 years to 5 - 10 years. This change resulted in the depreciation expense for the year ended 31 December 2022 to be lower by Saudi Riyals 33.1 million as compared to what it would have been using the previous useful lives. The change in useful lives was applied prospectively from 1 April 2022.</p>	<p>Our audit procedures included, among others, the following in relation to:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the procedures and methodology followed by Group management to assess the useful lives of the property and equipment.</li> <li>• Obtained assessments of the Group management and external specialist to evaluate their reasonableness in accordance with the requirements of IAS 16.</li> <li>• Assessed the competence, objectivity and independence of the specialist used by the Group management.</li> <li>• Tested changes of the revised useful lives of respective assets in the fixed asset register and recomputed the related depreciation.</li> <li>• Assessed the adequacy and appropriateness of the related disclosures in the consolidated financial statements.</li> </ul>

INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF AL DAWAA MEDICAL SERVICES COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Change in estimated useful lives of property and equipment (continued)</i></p> <p>We considered this as a key audit matter as the assessment of the review of the useful lives requires significant judgements and estimates by the Group management.</p> <p><i>Refer to note 3.8 to the consolidated financial statements for the accounting policy relating to the property and equipment, note 5.2.1 for the disclosure of significant accounting estimates and note 16 for the disclosure of matter related to change in useful lives.</i></p>	
<p><i>Remeasurement of lease liabilities</i></p>	
<p>As at 31 December 2022, the right-of-use assets and lease liabilities amounts to Saudi Riyals 1,586 million and Saudi Riyals 1,577 million, respectively.</p> <p>At the commencement date of the lease, the Group recognises lease liabilities measured at present value of lease payments to be made over the lease term. The Group management applies significant judgment in the determination of lease term and, among other factors, considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> <li>• Obtained our understanding of the Group's management process in the determination of lease term and the assessment performed by Group's management for change in lease term.</li> <li>• Reviewed lease contracts, on a sample basis and, assessed the appropriateness of lease term determined by the Group's management.</li> <li>• Involved our internal specialist to review the measurement and remeasurement of lease liabilities and to recompute the Group's management calculation of lease liabilities.</li> </ul>

INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF AL DAWAA MEDICAL SERVICES COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Remeasurement of lease liabilities (continued)</i></p> <p>During the year, the Group management reevaluated its business model relating to pharmacies and as a result, observed that the Group's expected average rental period have increased. Accordingly, the Group remeasured the lease liabilities and recognised Saudi Riyal 566 million as remeasurement of lease liabilities.</p> <p>We considered this as a key audit matter due to the size of the account balance and the assessment of the review of the lease term requires significant judgements and estimates by the Group management.</p> <p><i>Refer to note 3.9 to the consolidated financial statements for the significant accounting policy, note 5.1.2 for the significant judgement and note 17 which discloses the of matter related to reassessment of lease liabilities.</i></p>	<ul style="list-style-type: none"> <li>• Evaluated appropriateness of the discount rate used to compute the present value for remeasurement of lease liabilities.</li> <li>• Assessed the adequacy and appropriateness of the related disclosure in the consolidated financial statements.</li> </ul>

INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF AL DAWAA MEDICAL SERVICES COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Existence and valuation of inventories</i></p> <p>As at 31 December 2022, the gross value of Inventories amounted to Saudi Riyals 1,092 million (2021: Saudi Riyals 1,337 million) and the provision for slow moving and inventory items amounted Saudi Riyals 10.6 million (2021: Saudi Riyals 5.3 million).</p> <p>The carrying value of inventory is reduced by provisions including those relating to estimated losses due to slow moving items (note 21).</p> <p>The Group has cyclical and periodical inventory count system in place to conduct the stock count in warehouses and pharmacies throughout the year.</p> <p>The Group's significant purchases are covered under the agreement with certain vendors where the Group is able to return the expired inventory.</p> <p>We considered it to be a key audit matter given that:</p> <ul style="list-style-type: none"> <li>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</li> <li>Significant judgement and assumptions applied by the Group 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.</li> </ul> <p><i>Refer to note 3.14 to the consolidated financial statements for the significant accounting policy, note 5.2.10 for the significant accounting estimates and note 21 which discloses the inventories and associated impairment.</i></p>	<p>Our audit procedures included on the existence and valuation the following:</p> <ul style="list-style-type: none"> <li>Attended a sample of inventory counts of the warehouses and pharmacies, to validate counts performed by the Group.</li> <li>Evaluated the stock taking process and the provisioning processes. When reviewing Group 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.</li> <li>Evaluated the assumptions made by Group 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.</li> <li>Assessed reasonableness of the assumptions used in estimating the provision including reviewing of accuracy and completeness of the key inputs with the underlying supports.</li> <li>Reviewed on sample basis purchase agreements with certain vendors for the Group's entitlement to return the expired inventory.</li> <li>Assessed the adequacy of related disclosure included in the consolidated financial statements of the Group.</li> </ul>

INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF AL DAWAA MEDICAL SERVICES COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)

Other 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 Company'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.

Responsibilities of 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 the 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.



INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF AL DAWAA MEDICAL SERVICES COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)

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

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.
- 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.

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF AL DAWAA MEDICAL SERVICES COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)**

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

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

for Ernst & Young Professional Services



Marwan S. AlAfaliq  
Certified Public Accountant  
License No. 422



Al Khobar: 1 Ramadhan 1444H  
23 March 2023

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

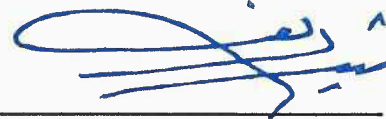
	Notes	2022 SR	2021 SR
Revenue	6	5,372,242,509	5,034,381,999
Cost of revenue		(3,352,644,016)	(3,139,978,028)
<b>GROSS PROFIT</b>		<b>2,019,598,493</b>	<b>1,894,403,971</b>
<b>EXPENSES</b>			
Selling and distribution	10	(1,517,781,359)	(1,508,451,134)
General and administration	11	(132,778,118)	(118,059,818)
<b>OPERATING PROFIT</b>		<b>369,039,016</b>	<b>267,893,019</b>
Fair value gain on swap derivatives	19.4	51,485,244	63,421,643
Finance costs	12	(117,008,435)	(82,771,407)
Other income / (expense), net	13	14,353,740	(2,525,581)
<b>PROFIT BEFORE ZAKAT</b>		<b>317,869,565</b>	<b>246,017,674</b>
Zakat	14	(12,420,932)	(6,872,694)
<b>PROFIT FOR THE YEAR</b>		<b>305,448,633</b>	<b>239,144,980</b>
<b>EARNINGS PER SHARE</b>			
Basic and diluted earnings per share from profit for the year	15	<b>3.59</b>	<b>2.81</b>



Chairman of Board of Directors  
Mr. Samir Abdulhadi



Chief Executive Officer  
Mr. Mohammed Saad Al-Farraj



Chief Financial Officer  
Mr. Shareef Al-Aqabawi

The attached notes from 1 to 36 form part of these consolidated financial statements.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

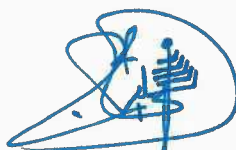
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Notes</i>	<b>2022</b>	<b>2021</b>
		<b>SR</b>	<b>SR</b>
<b>PROFIT FOR THE YEAR</b>		<b>305,448,633</b>	239,144,980
<b>OTHER COMPREHENSIVE LOSS</b>			
<i>Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains on employees' defined benefit liabilities	28	<b>9,616,416</b>	291,587
Fair value loss on equity instruments designated at FVOCI	20	<b>(102,813,095)</b>	(11,746,428)
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(93,196,679)</b>	(11,454,841)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>212,251,954</b>	227,690,139



Chairman of Board of Directors  
Mr. Samir Abdulhadi



Chief Executive Officer  
Mr. Mohammed Saad Al-Farraj



Chief Financial Officer  
Mr. Shareef Al-Aqabawi

The attached notes from 1 to 36 form part of these consolidated financial statements.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 SR	2021 SR
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property and equipment	16	941,764,995	823,396,398
Right-of-use assets	17	1,586,284,268	1,046,053,673
Intangible assets	18	19,804,185	20,996,400
Investment in unconsolidated subsidiaries		204,739	204,739
Equity instruments designated at FVOCI	20	162,226,035	265,039,130
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,710,284,222</b>	<b>2,155,690,340</b>
<b>CURRENT ASSETS</b>			
Inventories	21	1,081,511,991	1,331,812,994
Trade receivables and prepayments	22	564,315,049	493,976,707
Amounts due from a related party	23	879,005	2,293,739
Right of return assets	6.3	814,132	979,201
Bank balances and cash	24	138,968,953	46,306,634
<b>TOTAL CURRENT ASSETS</b>		<b>1,786,489,130</b>	<b>1,875,369,275</b>
<b>TOTAL ASSETS</b>		<b>4,496,773,352</b>	<b>4,031,059,615</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	25	850,000,000	850,000,000
Statutory reserve		59,459,361	28,914,498
Retained earnings		249,427,948	71,157,762
Fair value reserve of equity instruments designated at FVOCI		(63,699,474)	39,113,621
<b>TOTAL EQUITY</b>		<b>1,095,187,835</b>	<b>989,185,881</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	17	1,374,164,408	812,306,669
Term loans	27	277,083,332	-
Employees' defined benefit liabilities	28	132,058,361	125,348,335
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,783,306,101</b>	<b>937,655,004</b>
<b>CURRENT LIABILITIES</b>			
Refund liabilities	6.3	16,723,875	2,185,393
Trade payables and accruals	29	534,119,445	530,632,354
Amounts due to related parties	23	40,927,390	82,586,081
Current portion of lease liabilities	17	203,106,173	226,815,253
Contract liabilities	30	26,527,537	40,545,990
Current portion of term loans	27	122,916,668	-
Bank overdrafts and short-term loans	31	655,000,000	1,155,977,491
Swap derivatives liabilities	19.4	-	51,485,244
Zakat provision	14	18,958,328	13,990,924
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,618,279,416</b>	<b>2,104,218,730</b>
<b>TOTAL LIABILITIES</b>		<b>3,401,585,517</b>	<b>3,041,873,734</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,496,773,352</b>	<b>4,031,059,615</b>



Chairman of Board of Directors  
Mr. Samir Abdulhadi



Chief Executive Officer  
Mr. Mohammed Saad Al-Farraj



Chief Financial Officer  
Mr. Shareef Al-Aqabawi

The attached notes from 1 to 36 form part of these consolidated financial statements.

**AlDawaa Medical Services Company (A Saudi Joint Stock Company)**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2022

	Share capital SR	Proposed increase in capital SR	Statutory reserve SR	Retained earnings SR	Fair value reserve of equity instruments designated at FVOCI SR	Total SR
Balance at 1 January 2021	10,000,000	51,500,000	5,000,000	994,021,140	52,308,892	1,112,830,032
Profit for the year	-	-	-	239,144,980	-	239,144,980
Other comprehensive loss	-	-	-	291,587	(11,746,428)	(11,454,841)
Total comprehensive income	-	-	-	239,436,567	(11,746,428)	227,690,139
Dividends (note 26)	-	-	-	(351,334,290)	-	(351,334,290)
Transfer to share capital (note 25)	840,000,000	(51,500,000)	-	(788,500,000)	-	-
Transfer to statutory reserve	-	-	23,914,498	(23,914,498)	-	-
Transfer of fair value reserve of equity instruments designated at FVOCI to retained earnings	-	-	-	1,448,843	(1,448,843)	-
Balance at 31 December 2021	850,000,000	-	28,914,498	71,157,762	39,113,621	989,185,881
Profit for the year	-	-	-	305,448,633	-	305,448,633
Other comprehensive loss	-	-	-	9,616,416	(102,813,095)	(93,196,679)
Total comprehensive income	-	-	-	315,065,049	(102,813,095)	212,251,954
Dividends (note 26)	-	-	-	(106,250,000)	-	(106,250,000)
Transfer to statutory reserve	-	-	30,544,863	(30,544,863)	-	-
Balance at 31 December 2022	850,000,000	-	59,459,361	249,427,948	(63,699,474)	1,095,187,835

Chairman of Board of Directors

Mr. Samir Abdulhadi

Chief Executive Officer

Mr. Mohammed Saad Al-Farraj

Chief Financial Officer

Mr. Shareef Al-Aqabawi

The attached notes 1 to 36 form part of these consolidated financial statements.



# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## CONSOLIDATED STATEMENT OF CASH FLOWS

31 December 2022

	<i>Notes</i>	<b>2022</b>	<b>2021</b>
		<b>SR</b>	<b>SR</b>
<b>OPERATING ACTIVITIES</b>			
Profit before zakat		317,869,565	246,017,674
Adjustments to reconcile profit before zakat to net cash flows:			
Depreciation for property and equipment	16	152,046,757	145,596,344
Depreciation for right-of-use assets	17	196,753,467	183,147,472
Gain on disposal of property and equipment	13	(3,007,982)	(593,372)
Loss on property and equipment written off	13	7,835,876	1,645,208
Gain on derecognition due to termination of leases	13	(2,685,482)	(1,263,445)
Amortisation of intangible assets	18	5,721,671	5,124,294
Provision for employees' defined benefit liabilities	28	23,615,931	22,459,181
Finance costs	12	117,008,435	82,771,407
Fair value gain on swap derivatives liabilities	19.4	(51,485,244)	(63,421,643)
		<u>763,672,994</u>	<u>621,483,120</u>
Working capital adjustments			
Inventories		253,253,579	(8,034,968)
Trade receivables and prepayments		(70,338,342)	35,912,404
Amounts due from a related party		1,414,734	(2,183,339)
Right of return assets		165,069	649,448
Trade payables and accruals		3,079,125	74,462,208
Amounts due to related parties		(41,658,691)	44,413,641
Contract liabilities		(14,018,453)	930,997
Refund liabilities		14,538,482	(635,647)
Cash flows from operations		<u>910,108,497</u>	<u>766,997,864</u>
Finance costs paid		(111,863,302)	(79,244,713)
Employees' defined benefit liabilities paid	28	(12,434,622)	(4,474,240)
Zakat paid	14	(7,453,528)	(13,138,373)
Net cash generated from operating activities		<u>778,357,045</u>	<u>670,140,538</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	16	(283,028,956)	(313,292,034)
Proceeds from disposal of property and equipment	16	4,833,132	1,268,625
Additions to intangible assets	18	(4,529,456)	(6,874,848)
Purchase of equity instruments designated at FVOCI	20	-	(76,961,590)
Proceeds from disposal of equity instruments designated at FVOCI	20	-	17,391,033
Net cash used in investing activities		<u>(282,725,280)</u>	<u>(378,468,814)</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from term loans		400,000,000	-
Proceeds from short-term loans		3,059,250,000	3,081,571,992
Repayment of short-term loans		(3,504,250,000)	(2,831,571,992)
Payment of principal portion of lease liabilities	17	(195,306,621)	(195,354,494)
Settlement for closure of certain lease contracts of branches		(843,300)	(1,705,489)
Dividends paid		(105,842,034)	(351,334,290)
Net cash used in financing activities		<u>(346,991,955)</u>	<u>(298,394,273)</u>


The attached notes from 1 to 36 form part of these consolidated financial statements.

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

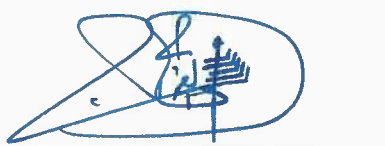
### CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

31 December 2022

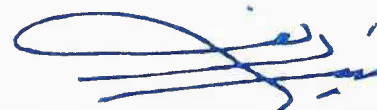
	<i>Notes</i>	<b>2022</b>	<b>2021</b>
		<b>SR</b>	<b>SR</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>148,639,810</b>	<b>(6,722,549)</b>
Cash and cash equivalents at 1 January	24	<u>(9,670,857)</u>	<u>(2,948,308)</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	24	<u><b>138,968,953</b></u>	<u><b>(9,670,857)</b></u>
<b>SIGNIFICANT NON-CASH TRANSACTIONS:</b>			
Additions to right-of-use assets and lease liabilities	17	<u><b>154,159,953</b></u>	<u>413,039,654</u>
Modification to right-of-use assets and lease liabilities	17	<u><b>657,028,937</b></u>	<u>74,416,828</u>
Derecognised of right-of-use assets due to termination	17	<u><b>(74,204,828)</b></u>	<u>(14,586,192)</u>
Derecognised of lease liabilities due to termination	17	<u><b>(77,733,610)</b></u>	<u>(17,555,126)</u>
Fair value gain on swap derivatives	19.4	<u><b>51,485,244</b></u>	<u>63,421,643</u>
Fair value loss on equity instruments designated at FVOCI	20	<u><b>(102,813,095)</b></u>	<u>(11,746,428)</u>
Transfer from retained earning to share capital	25	<u>-</u>	<u>788,500,000</u>
Transfer from proposed increase in capital to share capital	25	<u>-</u>	<u>51,500,000</u>
Transfer from property and equipment to inventories	16	<u><b>2,952,576</b></u>	<u>-</u>



Chairman of Board of Directors  
Mr. Samir Abdulhadi



Chief Executive Officer  
Mr. Mohammed Saad Al-Farraj



Chief Financial Officer  
Mr. Shareef Al-Aqabawi

The attached notes from 1 to 36 form part of these consolidated financial statements.



# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

### 1 CORPORATE INFORMATION

1.1 Al Dawaa Medical Services Company (the "Company") is a Saudi Joint Stock Company. The Company was initially registered as a Limited Liability Company in the Kingdom of Saudi Arabia ("KSA") under Commercial Registration numbered 2051025701 dated 23 Ramadan 1422H (corresponding to 8 December 2001) with branches in Khobar, Riyadh, Jeddah, and other cities across the Kingdom.

1.2 On 24 Thul-Qi'dah 1442H (corresponding to 4 July 2021), the Board has approved the plan for initial public offering of the Company by offering 30% of the shares of the Company for initial public offering by submitting an application and registering the securities to the Capital Market Authority (CMA) and listing it through Saudi Stock Exchange ("Tadawul"). On 18 Jumada I 1443H (corresponding to 22 December 2021), the CMA announces the approval to offer 25.5 million shares for public subscription representing (30%) of the Company's shares. On 14 March 2022, the Company's shares started trading in Tadawul.

1.3 The Company, its subsidiaries listed below and its branches disclosed in note 36 respectively (collectively referred to as the "Group"). The Company and its branches are engaged in online wholesale, pharmaceutical agents, wholesale pharmaceutical goods, pharmacy activities, pharmaceutical warehouse activities, retailing of medical equipment and equipment, online retailing, land transport of goods, providing delivery services via electronic platforms, managing and renting self-storage stores, providing marketing services on behalf of third parties.

1.4 The Group has investment in the following subsidiaries:

Subsidiary name	Activities	Effective ownership		Country of incorporation
		2022	2021	
Premier Medical Devices Manufacturing Company (note 1.5)	Manufacturing of single-use medical products, consumables, medical examination tables, surgical furniture, beds with mechanical motion additives, medical thermometers, respirators and medical anesthesia	100%	100%	Kingdom of Saudi Arabia
Glanzzan (note 1.5)	Marketing activities and health care management consulting activities	100%	100%	United Arab Emirates
Al-Dawaa Medical Services Company FZCO (note 1.5)	Marketing activities	100%	100%	United Arab Emirates
Ronzac GmbH (note 1.5)	Granting marketing licenses for pharmaceutical products, consumer goods and food products	100%	100%	Germany
Hollinz (note 1.5)	Granting marketing licenses for pharmaceutical products, consumer goods and food products	100%	100%	Germany

1.5 The Group has accounted for the investment in subsidiaries at cost and classified as investment in unconsolidated subsidiaries as the subsidiaries have not yet commenced operations. The assets, liabilities and operations of these subsidiaries as of 31 December 2022 and for the year then ended are not material to the Group's consolidated financial statements. Premier Medical Devices Manufacturing Company is part of the consolidation for the year ended 31 December 2021 and 2022 and included in these consolidated financial statements.

1.6 The Company's registered office is located at P.O. box 4326, Al Khobar 31952, Kingdom of Saudi Arabia.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 1 CORPORATE INFORMATION (continued)

1.7 These consolidated financial statements of the Group as of 31 December 2022 were authorised for issuance by the Board of Directors on 28 Sha'ban 1444 (corresponding to 20 March 2023).

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB") as endorsed in KSA and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

#### 2.2 Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for equity instruments designated at FVOCI and swap derivatives designated that have been measured at fair value, using the accrual basis of accounting.

The Group has prepared these consolidated financial statements on the basis that it will continue to operate as a going concern.

#### 2.3 Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals ("SR") which is also the functional currency of the Group and rounded to the nearest Saudi Riyals (except when otherwise indicated).

#### 2.4 Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in consolidated statement of profit or loss. Any investment retained is recognised at fair value.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented.

#### 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. An asset is current when:

- It is expected to be realised or intended to sold or consumed in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is expected to be realised within twelve months from the consolidated statement of financial position date; or
- It is cash or a 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.

A liability is current when:

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

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all other liabilities as non-current.

#### 3.2 Fair value measurement

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

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

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

The 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 should use valuation techniques that are appropriate in the circumstances and for which sufficient data to be available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.2 Fair value measurement (continued)

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

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.

Fair-value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Note 5
- Quantitative disclosures of fair value measurement hierarchy Note 9
- Financial instruments (including those carried at amortised cost) Note 19

#### 3.3 Revenue recognition

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

##### 3.3.1 Retail

The Group operates a chain of retail stores (pharmacies and healthcare stores) selling medicines; perfumes, cosmetics and beauty tools and products. Revenue is recognised at the point in time when control of the asset is transferred to the customer (i.e. at the point the customer purchases the goods at the retail outlet). Payment of the transaction price is due immediately at the point in time when control of the asset is transferred to the customer. However, certain sales are through insurance and other companies. A receivable is recognised by the Group upon transfer of control as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. It is the Group's policy to sell its products to the its customers with a right of return within 72 hours. However, the management concluded that the expected returns based on pattern of historical returns is deemed immaterial, accordingly the management has not accounted for it.

##### 3.3.2 Wholesale

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

##### (i) 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 wholesale provide customers with a right to return the goods within a specified period. The Group also provides retrospective volume rebates to certain customers once the quantity of purchased during a 12 months period exceeds the threshold specified in the contract. The rights of return and volume rebates give rise to variable consideration.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Revenue recognition (continued)

##### (i) Variable consideration (continued)

The disclosures of significant estimates and assumptions relating to the estimation of variable consideration for returns and volume rebates are provided in note 5.

##### a) Rights of return

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

##### b) Volume rebates

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

##### (ii) Significant financing component

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

##### (iii) Loyalty points programme

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

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

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

The disclosures of significant estimates and assumptions relating to the estimation of the stand-alone selling price of the loyalty points are provided in note 5.

##### (iv) Contract balances

##### a) Trade receivables

Trade receivables represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in note 3.12 under Financial instruments – initial recognition, subsequent measurement and derecognition.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Revenue recognition (continued)

##### (iv) *Contract balances (continued)*

##### b) *Contract liabilities*

A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e. transfers control of the related goods to the customer). Refer to accounting policies of financial liabilities in note 3.12 under Financial instruments – initial recognition, subsequent measurement and derecognition.

##### (v) *Assets and liabilities arising from rights of return*

##### a) *Right of return assets*

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

##### b) *Refund liabilities*

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

#### 3.4 Cost of sales and operating expenses

Cost of sales includes costs previously included in the measurement of the inventory that has been sold to customers. Selling and distribution expenses are those that specifically relate to salesmen, delivery vehicles, and rental of pharmacies as well as expected credit losses. All other expenses, except for finance costs, are classified as general and administration expenses.

##### *Commercial income*

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

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

#### 3.5 Foreign currencies

The Group's consolidated financial statements are presented in Saudi Riyals, which is also the parent Group's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.5 Foreign currencies (continued)

##### i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group at their respective spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

##### ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI.

#### 3.6 Zakat and indirect taxes

##### 3.6.1 Zakat

Zakat is provided in accordance with the Regulations of the Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia and on accruals basis. The provision is charged to the consolidated statement of profit and loss.

##### 3.6.2 Value-added tax (VAT)

Assets and expenses are recognised net of amount of VAT, except:

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

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

#### 3.7 Cash dividend distribution to equity holders

The Group recognises a liability to pay a dividend to equity holders when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per provisions of Companies' Law, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in consolidated statement of changes in equity.

#### 3.8 Property and equipment

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

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

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

Leasehold improvements	5 - 10 years (2021: 5 - 6.67 years)
Motor vehicles and distribution vans	5 years
Furniture and fixtures	5 years
Office equipment	6.67 years
Building	25 years
Tools and air-conditions	6.67 years
Machinery and equipment	20 years

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.8 Property and equipment (continued)

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

#### 3.9 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 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.

##### *3.9.1 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, as follows:

Property	2 - 20 years
Land	10 - 20 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. Refer note 3.11 Impairment of non-financial assets.

##### *3.9.2 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.

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.

##### *3.9.3 Short-term leases and leases of low-value assets*

Short-term leases are leases with a lease term of 12 months or less. Low-value assets are items that do not meet the Group's capitalisation threshold and are considered to be insignificant for the consolidated statement of financial position for the Group as a whole. Payments for short-term leases and leases of low-value assets are recognised on a straight-line basis in the consolidated statement of profit or loss.



### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.10 Intangible assets

Intangibles acquired separately are measured on initial recognition at cost. 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 the consolidated statement of profit or loss in the period in which the expenditure is incurred.

Intangible assets 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 with a finite useful life are amortised on a straight-line basis over the estimated useful lives of the assets, as follows:

Software	6.7 years
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An intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss.

#### 3.11 Impairment of non-financial assets

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

In assessing the value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate (pre-zakat/tax) that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group's impairment calculation is based on detailed budgets and forecast calculations which are prepared separately for each of the Group's CGU's to which the individual asset are allocated. These budgets and forecast calculations are generally covering a five-year period. For longer years, a long-term growth rate is calculated and applied to project future cash flows after the budgeted period.

Impairment losses of continuing operations, including impairment on working capital, if applicable, are recognised in the consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

Irrespective of whether there is any indication of impairment, the Group shall also test intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing their carrying amount with respective recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.11 Impairment of non-financial assets (continued)

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

#### 3.12 Financial instruments – initial recognition, subsequent measurement and derecognition

A financial instrument is any contract that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### 3.12.1 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 that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price as disclosed in note 3.3 under revenue recognition.

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

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

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

###### *Subsequent measurement*

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

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments) - not applicable to the Group
- 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 - not applicable to the Group

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.12 Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

##### 3.12.1 Financial assets (continued)

###### *Subsequent measurement (continued)*

###### *Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest (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 trade receivables, bank balances, and amounts due from a related party and other receivables.

###### *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 consolidated 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.

The Group elected to classify irrevocably its listed equity investments under this category.

###### *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 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.

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.

###### *Impairment*

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).

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.12 Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

##### 3.12.1 Financial assets (continued)

###### *Impairment (continued)*

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 more than one year past due. 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.

##### 3.12.2 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 term loans, trade payables, retention payables, other payables, amounts due to related parties, leases liabilities, bank overdrafts and short-term loans and derivative financial instruments.

###### *Subsequent measurement*

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

- Financial liabilities at fair value through profit or loss ("FVTPL") - not applicable to the Group
- Financial liabilities at amortised cost (loans and borrowings)

###### *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 consolidated statement of 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.

This category generally applies to term loans, trade payables, retention payables, other payables, amounts due to related parties, leases liabilities, bank overdrafts and short-term loans.

###### *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.

##### 3.12.3 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.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.13 Derivative financial instruments

##### *Initial recognition and subsequent measurement*

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

#### 3.14 Inventories

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

#### 3.15 Cash and Cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise of cash at banks and cash on hand which are subject to insignificant risk of change in value.

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

#### 3.16 Statutory reserve

In accordance with the Saudi Arabian Regulations for Companies, the Company must set aside 10% of its profit for the year after deducting losses brought forward in each year until it has built up a reserve equal to 30% of share capital. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution except in circumstances specified in the Saudi Arabian Regulations for Companies.

#### 3.17 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, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the 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 (zakat) 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.

#### 3.18 Employees' benefits

##### 3.18.1 Short-term obligations

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

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.18 Employees' benefits (continued)

##### 3.18.2 Employees' defined benefit liabilities

The Group operates a non-funded employee end-of-service benefit plan, which is classified as defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognised in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets at that date.

The defined benefit obligation is re-measured by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms to maturity approximating to the estimated term of the post-employment benefit obligations. Net interest cost is calculated by applying the discount rate to the net balance of the DBO and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of profit or loss.

Re-measurement gains and losses arising from changes in actuarial assumptions are recognised in the period in which they occur in OCI. Changes in the present value of the DBO resulting from plan amendments or curtailments are recognised immediately in the consolidated statement of profit or loss as past service costs.

For the liability for employees' defined benefit liabilities, the actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labour and Workmen Law as well as the Group policy.

##### 3.18.3 Defined contribution plan

The Group contributes a specific portion of salary of employees towards General Organization of Social Insurance ("GOSI") fund, which is a Kingdom's agency concerned with social insurance of employees in the Kingdom. During the year, the Group contributed SR 31.7 million (2021: SR 30.9 million) towards the fund.

#### 3.19 Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable, they are recorded in the consolidated statement of financial position under trade payables and accruals. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

### 4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise stated). 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.

In accordance with the transitional provisions, the Group applies the amendments to contracts for which it has not yet fulfilled all of its obligations, at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application) and has not restated its comparative information.

The Group applied the amendments to the contracts for which it had not fulfilled all of its obligations at the beginning of the reporting period. These amendments had no impact on the consolidated financial statements of the Group.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 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 Group 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*

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 Group 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 and equipment made available for use on or after the beginning of the earliest period presented.

#### 4.4 *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 Group applies the amendment to consolidated 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 consolidated financial instruments during the year.

#### 4.5 *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 consolidated financial statements of the Group as it is not a first-time adopter.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 5 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

Other disclosures relating to the exposure to risks and uncertainties include:

Capital management	Note 8
Financial instruments and risk management	Note 19
Sensitivity analyses disclosures	Note 19 and 28

#### 5.1 Judgements

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

##### 5.1.1 Determination and allocation of transaction prices

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

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

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

##### 5.1.2 Determining the lease term of contracts with renewal and termination options - Group as lessee

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

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

##### 5.1.3 Component parts of property and equipment

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



**5 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)**

**5.2 Estimates and assumptions**

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

*5.2.1 Useful lives of property and equipment*

Management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

*5.2.2 Impairment test of non-financial assets*

Impairment of non-financial assets incur when the carrying value of an asset or Cash Generating Unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing off the asset. The value in use is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget and business plan 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 CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future net cash-inflows and the growth rate used for extrapolation purposes.

*5.2.3 Provisions*

By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

*5.2.4 Provision for expected credit losses on trade receivables*

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

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 19.2.2.

*5.2.5 Valuation of employees' defined benefit plan*

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and other assumptions. 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.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 5 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

#### 5.2 Estimates and assumptions (continued)

##### 5.2.6 Revenue recognition - Estimating variable consideration for returns and volume rebates

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

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

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

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

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

##### 5.2.7 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.

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

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

As points issued under the programme expire within 12 months after the initial sale, estimates of the stand-alone selling price are not subject to significant uncertainty. As at 31 December 2022, the estimated liability for unredeemed points was SR 26.5 million (2021: SR 40.5 million).

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 5 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

#### 5.2 Estimates and assumptions (continued)

##### 5.2.9 Leases - Estimating the incremental borrowing rate

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

##### 5.2.10 Commercial income

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

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

### 6 REVENUE

#### 6.1 Disaggregated revenue information

	2022	2021
	SR	SR
<b>Type of revenue</b>		
Retail	5,175,912,574	4,885,988,843
Wholesale	196,329,935	148,393,156
<b>Total revenue</b>	<b>5,372,242,509</b>	<b>5,034,381,999</b>
<b>Geographical markets</b>		
Saudi Arabia	5,372,242,509	5,034,381,999
<b>Timing of revenue recognition</b>		
Goods transferred at a point in time	5,311,390,814	4,974,497,995
Goods transferred over time	60,851,695	59,884,004
<b>Total revenue</b>	<b>5,372,242,509</b>	<b>5,034,381,999</b>

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 6 REVENUE (continued)

#### 6.2 Contract balances

	2022	2021
	SR	SR
Trade receivables (note 22)	<b>318,490,456</b>	232,661,209
Contract liabilities (note 30)	<b>26,527,537</b>	40,545,990

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. Increase in Group's revenue resulted in increase in trade receivables. Provision for expected credit loss on trade receivables amounted to SR 27.46 million (2021: SR 28.07 million).

Contract liabilities include transaction price allocated to loyalty points not yet redeemed. The outstanding balances of these accounts decreased in 2022 as the eligible loyalty points earned during the year have been decreased.

	2022	2021
	SR	SR
Amount of revenue recognised from and included in contract liabilities at the beginning of the year	<b>40,545,990</b>	39,614,993

#### 6.3 Right of return assets and refund liabilities

	2022	2021
	SR	SR
Right of return assets (note 6.3.1)	<b>814,132</b>	979,201
Refund liabilities (note 6.3.2)		
Arising from volume and commercial rebates	<b>15,837,361</b>	716,995
Arising from rights of return	<b>886,514</b>	1,468,398
	<b>16,723,875</b>	2,185,393

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

6.3.2 The refund liability relates to customers' right to return products and volume rebates. The Group recognises a refund liability for the amount of consideration received for which the entity does not expect to be entitled. Refund liabilities increased in 2022 due to continuous increase in the Group's revenue.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are, as follows:

	2022	2021
	SR	SR
Within one year	<b>26,527,537</b>	40,545,990

The remaining performance obligations expected to be recognised in within one year relate to the customer loyalty programme. The customer loyalty points have an expiration of 12 months after the initial sale.

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 7 SEGMENT INFORMATION

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

- Retail: this segment includes the sale of goods to customers commonly at the store checkout for the sales via the Group's pharmacies.
- Wholesale: this segment includes sale of goods to the wholesale customers.

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

The information for each operating segment for the years ended 31 December 2022 and 31 December 2021 was as follows:

	<i>Retail</i>	<i>Wholesale</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>
<b>Year ended 31 December 2022</b>			
Revenue	5,175,912,574	196,329,935	5,372,242,509
Cost of revenue	(3,210,786,772)	(141,857,244)	(3,352,644,016)
Gross profit	1,965,125,802	54,472,691	2,019,598,493
Operating profit	364,461,750	4,577,266	369,039,016
<i>Unallocated income (expenses):</i>			
Fair value gain on swap derivatives liabilities			51,485,244
Finance costs			(117,008,435)
Other income, net			14,353,740
Zakat			(12,420,932)
<b>Profit for the year</b>			<b>305,448,633</b>
<b>Total assets</b>	<b>4,361,870,151</b>	<b>134,903,201</b>	<b>4,496,773,352</b>
<b>Liabilities</b>			
Allocated liabilities	2,244,537,951	102,047,566	2,346,585,517
<i>Unallocated liabilities</i>			
Term loans			400,000,000
Bank overdrafts and short-term loans			655,000,000
<b>Total liabilities</b>			<b>3,401,585,517</b>
<i>Other disclosure:</i>			
Capital expenditures	179,116,550	5,574,167	184,690,717

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 7 SEGMENT INFORMATION (continued)

	<i>Retail</i> <i>SR</i>	<i>Wholesale</i> <i>SR</i>	<i>Total</i> <i>SR</i>
Year ended 31 December 2021			
Revenue	4,885,988,843	148,393,156	5,034,381,999
Cost of revenue	(3,051,232,503)	(88,745,525)	(3,139,978,028)
Gross profit	<u>1,834,756,340</u>	<u>59,647,631</u>	<u>1,894,403,971</u>
Operating profit	252,131,659	15,761,360	267,893,019
<i>Unallocated income (expenses):</i>			
Fair value gain on swap derivatives liabilities			63,421,643
Finance costs			(82,771,407)
Other expense, net			(2,525,581)
Zakat			(6,872,694)
Profit for the year			<u>239,144,980</u>
Total assets	<u>3,922,226,526</u>	<u>108,833,089</u>	<u>4,031,059,615</u>
Liabilities			
Allocated liabilities	1,784,881,902	49,529,097	1,834,410,999
<i>Unallocated liabilities</i>			
Bank overdrafts and short-term loans			1,155,977,491
Swap derivatives liabilities			51,485,244
Total liabilities			<u>3,041,873,734</u>
<i>Other disclosure:</i>			
Capital expenditures	<u>420,000,145</u>	-	<u>420,000,145</u>

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

Revenue from one customer amounted to SR 756 million (2021: SR 576 million), arising from sales in the retail segment.

#### 8 CAPITAL MANAGEMENT

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

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

	2022 <i>SR</i>	2021 <i>SR</i>
Total Liabilities	<b>3,401,585,517</b>	3,041,873,734
Less: bank balances and cash	<b>(138,968,953)</b>	(46,306,634)
Net debt	<u>3,262,616,564</u>	2,995,567,100
Total equity	<u>1,095,187,835</u>	989,185,881
Equity and net debt	<u>4,357,804,399</u>	<u>3,984,752,981</u>
<b>Gearing ratio</b>	<b>75%</b>	75%

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 8 CAPITAL MANAGEMENT (continued)

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

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

### 9 FAIR VALUES OF FINANCIAL INSTRUMENTS

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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.

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 categorised 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 recognises 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 between Levels 1, 2 or 3 during the years ended 31 December 2022 and 31 December 2021. The below fair values have been determined at 31 December 2022.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities:

	Carrying value	Fair value measurement using		
		Level 1	Level 2	Level 3
	SR	SR	SR	SR
<b>31 December 2022</b>				
<i>Financial assets designated at fair value through OCI (listed equity instruments):</i>				
Health care sector	<b>126,916,035</b>	<b>126,916,035</b>	-	-
Energy sector	<b>35,310,000</b>	<b>35,310,000</b>	-	-
	Carrying value	Fair value measurement using		
	SR	Level 1	Level 2	Level 3
	SR	SR	SR	SR
<b>31 December 2021</b>				
<i>Financial assets designated at fair value through OCI (listed equity instruments):</i>				
Health care sector	229,228,996	229,228,996	-	-
Energy sector	35,810,134	35,810,134	-	-
<i>Derivatives financial instruments</i>				
Swap derivatives liabilities	51,485,244	-	51,485,244	-

Fair values of Group's remaining financial assets and financial liabilities are not materially different from their carrying amounts because of short term nature of these balances.

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 10 SELLING AND DISTRIBUTION EXPENSES

	2022 SR	2021 SR
Employees' cost	915,266,773	937,953,523
Depreciation of right-of-use assets (note 17)	196,556,120	183,147,472
Depreciation of property and equipment (note 16)	145,705,064	142,741,286
Marketing and distribution expenses	73,638,503	67,334,146
Utilities	54,085,750	46,820,579
Repair and maintenance	42,225,470	31,726,854
IT services	19,230,566	6,011,145
Governmental fees	17,191,641	17,532,712
Points of sale expenses	15,249,469	13,154,599
Travel and transportation	7,170,875	12,534,463
Stationery and printing	4,226,697	3,404,045
Insurance	3,927,271	4,247,065
Car rent expenses	2,961,498	1,165,670
Cargo and packing	1,970,973	5,429,521
Reversal for expected credit loss (note 22)	(614,655)	(204,480)
Others	18,989,344	35,452,534
	<b>1,517,781,359</b>	<b>1,508,451,134</b>

#### 11 GENERAL AND ADMINISTRATION EXPENSES

	2022 SR	2021 SR
Employees' cost	68,813,583	59,931,889
IT services	35,130,587	33,163,208
Depreciation of property and equipment (note 16)	6,341,693	2,855,058
Amortisation of intangible assets (note 18)	5,721,671	5,124,294
Professional fees	5,185,992	945,484
Board of directors' remuneration	2,592,000	1,302,000
Travel	1,546,411	923,260
Expense relating to short-term leases (note 17)	820,772	1,532,087
Vehicles expenses	713,478	788,430
Gifts and donation	380,000	50,000
Depreciation of right-of-use assets (note 17)	197,347	-
Others	5,334,584	11,444,108
	<b>132,778,118</b>	<b>118,059,818</b>

#### 12 FINANCE COSTS

	2022 SR	2021 SR
Interest on loans and bank overdrafts	63,175,813	47,304,243
Interest on lease liabilities (note 17)	48,687,489	31,940,470
Interest cost on employees' defined benefit liabilities (note 28)	5,145,133	3,526,694
	<b>117,008,435</b>	<b>82,771,407</b>



## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 13 OTHER INCOME / (EXPENSE), NET

	2022	2021
	SR	SR
Gain on swap derivative instruments	7,780,368	2,623,646
Refund of human resource development fund (HRDF)	5,308,399	5,142,860
Dividend income from equity instruments designated at FVOCI (note 20)	4,901,383	6,523,164
Gain on disposal of property and equipment (note 16)	3,007,982	593,372
Gain on derecognition due to termination of leases (note 17)	2,685,482	1,263,445
Insurance claim settlement	189,969	122,165
Loss on property and equipment written off (note 16)	(7,835,876)	(1,645,208)
Loss from foreign currencies exchange	(1,020,299)	(9,043,366)
Others, net	(663,668)	(8,105,659)
	<b>14,353,740</b>	<b>(2,525,581)</b>

#### 14 ZAKAT

##### 14.1 Charge for the year

The zakat charge for the Group has been computed for the Group, which files a combined zakat return for the Company and its wholly owned subsidiary starting from the year 2022.

The zakat charge consists of:

	2022	2021
	SR	SR
Current year provision	<b>12,420,932</b>	6,872,694

The provision is based on the following:

	2022	2021
	SR	SR
Equity	843,822,260	1,933,527,130
Opening provisions and other adjustments	2,007,015,749	202,587,421
Book value of long term assets	(2,710,284,222)	(2,155,485,600)
	<b>140,553,787</b>	(19,371,049)
Zakatable results for the year	<b>351,916,006</b>	294,935,467
Zakat base	<b>492,469,793</b>	294,935,467

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

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 14 ZAKAT (continued)

##### 14.2 Movements in provision during the year

The movement in the zakat provision was as follows:

	2022	2021
	SR	SR
At the beginning of the year	<b>13,990,924</b>	20,256,603
Provided during the year	<b>12,420,932</b>	6,872,694
Payments during the year	<b>(7,453,528)</b>	(13,138,373)
At the end of the year	<b>18,958,328</b>	13,990,924

##### 14.3 Status of assessments

Zakat assessments have been agreed with the ZATCA up to 2016. The Group's zakat return for the years 2017 to 2021 has been filed with the ZATCA. However, the assessments have not yet been raised by the ZATCA.

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

#### 15 EARNINGS PER SHARE (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by adjusting basic earnings per share for the weighted average number of additional shares that would have been outstanding assuming the conversion of all dilutive potential shares.

The following table reflects the income and share data used in the basic and diluted EPS calculations:

	2022	2021
	SR	SR
Profit for the year	<b>305,448,633</b>	239,144,980
Weighted average number of ordinary shares outstanding	<b>85,000,000</b>	85,000,000
Basic and diluted earnings per share from profit for the year	<b>3.59</b>	2.81

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these consolidated financial statements.

Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

16 PROPERTY AND EQUIPMENT

For the year ended 31 December 2022

	<i>Land</i>	<i>Leasehold</i>	<i>Motor</i>	<i>Furniture and</i>	<i>Office</i>	<i>Building</i>	<i>Tools and</i>	<i>Machinery</i>	<i>Capital work</i>	<i>Total</i>
	<i>SR</i>	<i>improvements</i>	<i>vehicles and</i>	<i>fixtures</i>	<i>equipment</i>	<i>SR</i>	<i>air-conditioners</i>	<i>and</i>	<i>in progress</i>	<i>SR</i>
		<i>SR</i>	<i>distribution</i>				<i>SR</i>	<i>equipment</i>		
			<i>vans</i>							
			<i>SR</i>							
				<i>SR</i>					<i>SR</i>	<i>SR</i>
<i>Cost:</i>										
At beginning of the year	48,337,604	720,156,276	131,355,304	336,973,121	69,857,218	225,209,674	113,222,587	49,489,915	28,400,752	1,723,002,451
Additions	38,506,769	13,409,320	19,042,383	82,442,851	8,186,057	324,039	-	39,645	121,077,892	283,028,956
Disposals	-	-	(15,629,123)	-	-	-	-	-	-	(15,629,123)
Transfers	-	100,619,661	-	5,201,046	-	1,196,672	-	-	(107,017,379)	-
Transfer to inventories	-	-	-	-	-	-	-	-	(2,952,576)	(2,952,576)
Write-off	-	(96,072,022)	-	(21,382,479)	(958,967)	-	-	-	(1,710,117)	(120,123,585)
Reclassification (note 16.6)	-	113,222,587	-	-	-	-	(113,222,587)	-	-	-
At end of the year	86,844,373	851,335,822	134,768,564	403,234,539	77,084,308	226,730,385	-	49,529,560	37,798,572	1,867,326,123
<i>Accumulated depreciation:</i>										
At beginning of the year	-	415,090,109	97,429,553	227,326,827	37,143,656	41,013,533	81,108,323	494,052	-	899,606,053
Charge for the year	-	71,756,826	12,750,770	42,563,986	8,115,544	14,383,731	-	2,475,900	-	152,046,757
Disposals	-	-	(13,803,973)	-	-	-	-	-	-	(13,803,973)
Write-off	-	(91,486,829)	-	(19,922,648)	(878,232)	-	-	-	-	(112,287,709)
Reclassification (note 16.6)	-	81,108,323	-	-	-	-	(81,108,323)	-	-	-
At end of the year	-	476,468,429	96,376,350	249,968,165	44,380,968	55,397,264	-	2,969,952	-	925,561,128
<i>Net book amounts:</i>										
<b>At 31 December 2022</b>	<b>86,844,373</b>	<b>374,867,393</b>	<b>38,392,214</b>	<b>153,266,374</b>	<b>32,703,340</b>	<b>171,333,121</b>	<b>-</b>	<b>46,559,608</b>	<b>37,798,572</b>	<b>941,764,995</b>

Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

16 PROPERTY AND EQUIPMENT (continued)

For the year ended 31 December 2021

	<i>Land</i> <i>SR</i>	<i>Leasehold</i> <i>improvements</i> <i>SR</i>	<i>Motor</i> <i>vehicles and</i> <i>distribution</i> <i>vans</i> <i>SR</i>	<i>Furniture and</i> <i>fixtures</i> <i>SR</i>	<i>Office</i> <i>equipment</i> <i>SR</i>	<i>Building</i> <i>SR</i>	<i>Tools and</i> <i>air-conditioners</i> <i>SR</i>	<i>Machinery</i> <i>and</i> <i>equipment</i> <i>SR</i>	<i>Capital work</i> <i>in progress</i> <i>SR</i>	<i>Total</i> <i>SR</i>
<i>Cost:</i>										
At beginning of the year	37,149,542	538,455,669	118,575,979	280,334,735	61,172,070	212,508,214	99,582,940	-	85,594,879	1,433,374,028
Additions	11,188,062	16,693,319	14,367,864	51,631,095	8,750,133	1,812,969	9,501,286	198,897	199,148,409	313,292,034
Disposals	-	-	(1,588,539)	-	-	-	-	-	-	(1,588,539)
Transfers	-	181,239,663	-	9,144,044	118,316	10,888,491	5,483,031	49,291,018	(256,164,563)	-
Write-off	-	(16,232,375)	-	(4,136,753)	(183,301)	-	(1,344,670)	-	(177,973)	(22,075,072)
At end of the year	48,337,604	720,156,276	131,355,304	336,973,121	69,857,218	225,209,674	113,222,587	49,489,915	28,400,752	1,723,002,451
<i>Accumulated depreciation:</i>										
At beginning of the year	-	350,000,860	87,068,380	198,586,737	33,845,302	27,126,897	78,724,683	-	-	775,352,859
Charge for the year	-	80,314,858	11,274,459	32,552,980	3,454,331	13,886,636	3,619,028	494,052	-	145,596,344
Disposals	-	-	(913,286)	-	-	-	-	-	-	(913,286)
Transfers	-	28,254	-	(22,233)	(6,021)	-	-	-	-	-
Write-off	-	(15,253,863)	-	(3,790,657)	(149,956)	-	(1,235,388)	-	-	(20,429,864)
At end of the year	-	415,090,109	97,429,553	227,326,827	37,143,656	41,013,533	81,108,323	494,052	-	899,606,053
<i>Net book amounts:</i>										
At 31 December 2021	48,337,604	305,066,167	33,925,751	109,646,294	32,713,562	184,196,141	32,114,264	48,995,863	28,400,752	823,396,398

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 16 PROPERTY AND EQUIPMENT (continued)

- 16.1 The Group's buildings are constructed on land leased from third parties for long term periods.
- 16.2 Capital work in progress represents costs incurred in respect of opening new pharmacies and a manufacturing facility which have not commenced operation yet. The related capital commitments are reported in note 32.1.
- 16.3 In 2022, the Group sold property and equipment with a total net carrying amount of SR 1.83 million (2021: SR 0.7 million) for a cash consideration of SR 4.83 million (2021: SR 1.3 million). The net gains on these disposals amount of SR 3 million (2021: SR 0.6 million) were recognised as part of other income in the consolidated statement of profit or loss (note 13).
- 16.4 During the year, the Group written off certain property and equipment with a total net carrying amount of SR 7.8 million (2021: SR 1.65 million). The loss on these writte off amounting to SR 7.8 million (2021: SR 1.65 million) were recognised as part of other income in the consolidated statement of profit or loss (note 13).
- 16.5 Cost of fully depreciated assets as at 31 December 2022 amounted to SR 563.9 million (2021: SR 419.7 million).
- 16.6 During the year, the Group's in-house technical team, in assistance with management's external third-party expert, concluded on the results of a detailed exercise to re-assess the useful lives of leasehold improvements, considering multiple factors including historical and future anticipated usage and movability of similar assets. Based on such exercise, the Group's management revised the useful life range of its leasehold improvements from 5 - 6.67 years to 5 - 10 years with effect from 1 April 2022 considering the reclassification of total balance for tools and air-conditioners category to the leasehold improvements category to improve the presentation. The revision in estimated useful life range is considered to be a change in accounting estimate and, accordingly, the effect of this change has been adopted prospectively. As a result of this change, the depreciation charge has decreased by SR 33.1 million and total consolidated comprehensive income for the year ended 31 December 2022 increased by SR 33.1 million compared to what it would have been used in the previous useful life range.
- 16.7 The depreciation charge has been allocated as follows:

	2022 SR	2021 SR
Selling and distribution expenses (note 10)	145,705,064	142,741,286
General and administration expenses (note 11)	6,341,693	2,855,058
	<u>152,046,757</u>	<u>145,596,344</u>

#### 17 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group has lease contracts for various items of property and land used in its operations.

Set out below are the charging amounts of right-of-use assets recognised and the movement during the year:

	<i>Property</i> SR	<i>Land</i> SR	<i>Total</i> SR
As at 1 January 2021	743,061,822	13,269,033	756,330,855
Additions	413,039,654	-	413,039,654
Remeasurements	74,416,828	-	74,416,828
Derecognised due to termination	(14,586,192)	-	(14,586,192)
Depreciation expense	(182,183,974)	(963,498)	(183,147,472)
At 31 December 2021	1,033,748,138	12,305,535	1,046,053,673
Additions	145,007,300	9,152,653	154,159,953
Remeasurements (note 17.1)	657,028,937	-	657,028,937
Derecognised due to termination	(74,204,828)	-	(74,204,828)
Depreciation expense	(193,954,378)	(2,799,089)	(196,753,467)
At 31 December 2022	<u>1,567,625,169</u>	<u>18,659,099</u>	<u>1,586,284,268</u>

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 17 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

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

	2022 SR	2021 SR
As at 1 January	1,039,121,922	764,575,060
Additions	154,159,953	413,039,654
Remeasurements (note 17.1)	657,028,937	74,416,828
Derecognised due to termination	(77,733,610)	(17,555,126)
Accretion of interest	48,687,489	31,940,470
Payments	(243,994,110)	(227,294,964)
<b>At 31 December</b>	<b>1,577,270,581</b>	<b>1,039,121,922</b>
Current	203,106,173	226,815,253
Non-current	1,374,164,408	812,306,669

The maturity analysis of lease liabilities are disclosed in note 19.2.3.

17.1 During the year, the management reevaluated its business model relating to pharmacies and as a result, observed that the Group's expected average rental period have increased. Accordingly, the Group remeasured the lease liabilities and recognised SR 566 million as remeasurement of right-of-use assets and lease liabilities.

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

	2022 SR	2021 SR
Depreciation expense of right-of-use assets (note 10)	196,556,120	183,147,472
Interest expense on lease liabilities (note 12)	48,687,489	31,940,470
Gain on derecognition due to termination of leases (note 13)	2,685,482	1,263,445
Expense relating to short-term leases included in general and administration expenses (note 11)	820,772	1,532,087
Depreciation expense of right-of-use assets (note 11)	197,347	-
<b>Total amount recognised in consolidated statement of profit or loss</b>	<b>248,947,210</b>	<b>217,883,474</b>

The Group had total cash outflows for leases of SR 245.7 million in 2022 (2021: SR 230.5 million). The Group also had non-cash additions to right-of-use assets and lease liabilities of SR 154 million in 2022 (2021: SR 413 million).

#### 18 INTANGIBLE ASSETS

	2022 SR	2021 SR
<i>Cost:</i>		
At the beginning of the year	44,905,400	38,030,552
Additions	4,529,456	6,874,848
At the end of the year	49,434,856	44,905,400
<i>Accumulated amortisation:</i>		
At the beginning of the year	23,909,000	18,784,706
Charge for the year	5,721,671	5,124,294
At the end of the year	29,630,671	23,909,000
<i>Net book amount as at 31 December</i>	<b>19,804,185</b>	<b>20,996,400</b>

18.1 The entire amortisation charged has been allocated to the general and administration expenses.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### 19.1 Financial instruments

The financial instruments are categorised as follows:

	2022	2021
	SR	SR
<i>19.1.1 Financial assets at amortised cost:</i>		
Trade receivables	318,490,456	232,661,209
Other receivables	17,686,642	25,766,368
Amounts due from a related party	879,005	2,293,739
Bank balances	129,115,934	36,666,011
	<b>466,172,037</b>	<b>297,387,327</b>

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

Equity instruments designated at FVOCI - listed equity investments

Saudi Pharmaceutical Industries and Medical Appliances Corp. ("SPIMACO")	126,916,035	229,228,996
Saudi Arabian Oil Company ("Saudi Aramco")	35,310,000	35,810,134
	<b>162,226,035</b>	<b>265,039,130</b>

#### 19.1.3 Financial liabilities at amortised cost:

Term loans	400,000,000	-
Trade payables	426,186,418	393,684,912
Retention payable	3,929,394	5,554,604
Other payables	28,511,875	46,084,881
Amounts due to related parties	40,927,390	82,586,081
Lease liabilities	1,577,270,581	1,039,121,922
Bank overdrafts and short-term loans	655,000,000	1,155,977,491
	<b>3,131,825,658</b>	<b>2,723,009,891</b>

#### 19.1.4 Derivatives financial instruments

Interest rate swaps - liabilities	-	51,485,244
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#### 19.2 Financial instruments risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise term loans, trade payables, retention payables, other payables, amounts due to related parties, lease liabilities, bank overdrafts and short-term loans. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade receivables, other receivables, amounts due from a related party and bank balances that derive directly from its operations. The Group also holds investments in equity instruments and enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management is supported by the Board of Directors that advises on financial risks and the appropriate financial risk governance framework for the Group. The Board of Directors provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### 19.2 Financial instruments risk management objectives and policies (continued)

##### 19.2.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk and currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include term loans, short-term loans, trade payables, equity investments and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December in 2022 and 2021.

##### (i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings which expose the Group to cash flow interest rate risk.

##### *Interest rate sensitivity*

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

	2022 SR	2021 SR
Interest rate – increase by 100 basis points	10,806,553	11,000,000
Interest rate – decrease by 100 basis points	(10,806,553)	(11,000,000)

##### (ii) 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).

The Group did not undertake significant transactions in currencies other than Saudi Riyals (SR), US Dollars (US \$), UAE Dirhams ("AED"), British Pounds ("GBP ") and Euro ("EUR") during the year. As SR is pegged to US \$ and AED, the management of the Group believes that the currency risk for financial instruments denominated in US \$ and AED is not significant. The Group is exposed to currency risk on transactions and balances in GBP and EUR. The Group manages currency risk exposure to the above currencies by continuously monitoring the currency fluctuations.

##### *Foreign currency sensitivity*

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

	<b>Change in GBP rate</b>	<b>Effect on profit</b>
<b>31 December 2022</b>	<b>+10%</b>	<b>(196,028)</b>
	<b>-10%</b>	<b>196,028</b>
31 December 2021	+10%	(117,084)
	-10%	117,084
	<b>Change in EUR rate</b>	<b>Effect on profit</b>
<b>31 December 2022</b>	<b>+10%</b>	<b>(922,378)</b>
	<b>-10%</b>	<b>922,378</b>
31 December 2021	+10%	(663,209)
	-10%	663,209



# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### 19.2 Financial instruments risk management objectives and policies (continued)

##### 19.2.1 Market risk (continued)

##### (iii) Equity price risk

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

At the reporting date, the exposure to equity investments at fair value listed on the Saudi Exchange market (Tadawul) was SR 162 million (2021: SR 265 million). Given that the changes in fair values of the equity investments held are strongly positively correlated with changes of the market index, the Group has determined that an increase/(decrease) of 10% on the market index could have an impact of approximately SR 16.2 million (2021: SR 26.5 million) increase/(decrease) on the other comprehensive income in consolidated statement of comprehensive income and equity attributable to the Group.

##### 19.2.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables).

##### (i) Trade receivables

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

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for grouping of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 19.1.1. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables and as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

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

	<i>Expected credit loss rate</i>	<i>Gross trade receivables</i> SR	<i>Expected credit loss</i> SR
<b>31 December 2022</b>			
Current	2%	304,856,332	5,898,427
1 - 90 days	1%	10,648,793	128,333
91-180 days	13%	5,878,951	751,044
181-270 days	26%	4,130,937	1,084,469
271-360 days	54%	371,182	199,374
Over 361	97%	20,067,559	19,401,651
		<b>345,953,754</b>	<b>27,463,298</b>

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### 19.2 Financial instruments risk management objectives and policies (continued)

##### 19.2.2 Credit risk (continued)

	<i>Expected credit loss rate</i>	<i>Gross trade receivables</i>	<i>Expected credit loss</i>
<i>31 December 2021</i>		<i>SR</i>	<i>SR</i>
Current	2%	152,611,843	3,202,806
1 - 90 days	6%	78,663,717	5,056,044
91-180 days	20%	11,478,193	2,282,036
181-270 days	46%	311,340	143,670
271-360 days	89%	743,417	658,014
Over 361	99%	16,930,652	16,735,383
		260,739,162	28,077,953

##### (ii) Bank balances

Credit risk from balances with banks is managed by the Group's treasury department in accordance with the Group's policy. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. The Group's maximum exposure to credit risk for the components of the consolidated statement of financial position at 31 December 2022 and 2021 is the carrying amounts as illustrated in note 19.1.1.

##### 19.2.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to realise financial assets quickly at an amount close to its fair value. The Group manages its liquidity risk by monitoring working capital and cash flow requirements on regular basis and seeking Board of Directors support, as and if required to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains different lines of credit. The Group's terms of contracts require amounts to be paid within 30-90 days of the date of billings. Trade payables are normally settled within 30-60 days of billing date or receipt of a correctly rendered invoice.

##### *Excessive risk concentration*

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

# Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

### 19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 19.2 Financial instruments risk management objectives and policies (continued)

##### 19.2.3 Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	<i>less than a year</i>	<i>1 to 5 years</i>	<i>&gt; 5 years</i>	<i>Total</i>
<i>31 December 2022</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Term loans	126,555,429	288,172,661	-	414,728,090
Trade payables	426,186,418	-	-	426,186,418
Retention payable	3,929,394	-	-	3,929,394
Other payables	28,511,875	-	-	28,511,875
Amounts due to related parties	40,927,390	-	-	40,927,390
Bank overdrafts and short-term loans	665,927,174	-	-	665,927,174
Lease liabilities	229,081,218	833,025,640	892,360,096	1,954,466,954
	<b>1,521,118,898</b>	<b>1,121,198,301</b>	<b>892,360,096</b>	<b>3,534,677,295</b>
	<i>less than a year</i>	<i>1 to 5 years</i>	<i>&gt; 5 years</i>	<i>Total</i>
<i>31 December 2021</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Trade payables	393,684,912	-	-	393,684,912
Retention payable	5,554,604	-	-	5,554,604
Other payables	46,084,881	-	-	46,084,881
Amounts due to related parties	82,586,081	-	-	82,586,081
Bank overdrafts and short-term loans	1,166,418,289	-	-	1,166,418,289
Lease liabilities	258,755,723	633,002,374	530,116,411	1,421,874,508
	<b>1,953,084,490</b>	<b>633,002,374</b>	<b>530,116,411</b>	<b>3,116,203,275</b>

#### 19.3 Changes in liabilities arising from financing activities

	<i>1 January</i>	<i>Cash outflow</i>	<i>Others</i>	<i>31 December</i>
	<i>2022</i>			<i>2022</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Term loans	-	-	400,000,000	400,000,000
Dividends payable	-	(105,842,034)	106,250,000	407,966
Lease Liabilities	1,035,884,346	(245,658,182)	782,142,769	1,572,368,933
Short-term loans	1,100,000,000	(3,504,250,000)	3,059,250,000	655,000,000
Total liabilities from financing activities	<b>2,135,884,346</b>	<b>(3,855,750,216)</b>	<b>4,347,642,769</b>	<b>2,627,776,899</b>
	<i>1 January</i>	<i>Cash outflow</i>	<i>Others</i>	<i>31 December</i>
	<i>2021</i>			<i>2021</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Dividends payable	-	(351,334,290)	351,334,290	-
Lease Liabilities	764,575,060	(230,532,540)	501,841,826	1,035,884,346
Short-term loans	850,000,000	(2,831,571,992)	3,081,571,992	1,100,000,000
Total liabilities from financing activities	<b>1,614,575,060</b>	<b>(3,413,438,822)</b>	<b>3,934,748,108</b>	<b>2,135,884,346</b>

The "others" column includes non-cash movements, classification of dividends payable once distribution of dividends is authorised by shareholders, acquisition of term loans, short-term loans and lease liabilities.

As of 31 December 2022, the dividend payable of SR 0.4 million has been classified under other payables.

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### 19.4 Derivatives financial instruments

The Group is exposed to certain risks relating to its ongoing business operations. The primary risk managed using derivative instruments are interest rate risk.

The Group's risk management strategy and how it is applied to manage risk are explained in note 19.2.

The Group uses interest rate swap agreements to manage its exposures to interest rate risks. The interest rate swap agreements are not designated as hedging instruments and are entered into for periods consistent with exposure of the underlying transactions.

The Group uses interest rate swap agreements to manage its exposure to interest rate risk. The consolidated statement of financial position included SR nil (2021: SR 51.5 million) relates to swap derivatives. The movement of the fair value gain amounted to SR 51.5 million (2021: SR 63.4 million) of these derivatives were recognised in the consolidated statement of profit or loss.

#### 20 EQUITY INSTRUMENTS DESIGNATED AT FVOCI

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

	2022 SR	2021 SR
Saudi Pharmaceutical Industries and Medical Appliances Corp. ("SPIMACO")	126,916,035	229,228,996
Saudi Arabian Oil Company ("Saudi Aramco")	35,310,000	35,810,134
	<u>162,226,035</u>	<u>265,039,130</u>

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

	2022 SR	2021 SR
At 1 January	265,039,130	217,215,001
Purchase	-	76,961,590
Sales (note 20.1)	-	(17,391,033)
Change in fair value	(102,813,095)	(11,746,428)
Balance at 31 December	<u>162,226,035</u>	<u>265,039,130</u>

20.1 In 2021, the Group sold 500 thousand of its shares as this investment no longer coincides with the Group's investment strategy. The fair value on the date of sale was SR 17.4 million and the accumulated gain recognised in OCI of SR 1.4 million was transferred to retained earnings.

20.2 The Group received dividends amount of SR 3.5 million from SPIMACO (2021: SR 4.8 million) and amount of SR 1.4 million from Saudi Aramco (2021: SR 1.8 million), totalling of amount SR 4.9 million (2021: SR 6.5 million). The received dividends were recognised as part of other income in the consolidated statement of profit or loss (note 13).

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 21 INVENTORIES

	2022 SR	2021 SR
Inventories relating to pharmacies	1,068,425,326	1,306,657,421
Inventories relating to distribution	23,711,515	30,495,046
	<u>1,092,136,841</u>	<u>1,337,152,467</u>
Less: provision for slow moving inventory items (note 21.2)	(10,624,850)	(5,339,473)
	<u><u>1,081,511,991</u></u>	<u><u>1,331,812,994</u></u>

21.1 The cost of inventory recognised as expense amounted to SR 3,353 million (2021: SR 3,139 million).

21.2 Movement in the provision for slow moving inventory items was follows:

	2022 SR	2021 SR
At the beginning of the year	5,339,473	15,621,270
Charge / (reversal) during the year	5,285,377	(10,281,797)
At the end of the year	<u><u>10,624,850</u></u>	<u><u>5,339,473</u></u>

#### 22 TRADE RECEIVABLES AND PREPAYMENTS

	2022 SR	2021 SR
Trade receivables	345,953,754	260,739,162
Less: provision for expected credit loss (note 22.3)	(27,463,298)	(28,077,953)
	<u>318,490,456</u>	<u>232,661,209</u>
Advances to suppliers	213,994,834	221,130,707
Prepaid expenses	14,143,117	14,418,423
Other receivables	17,686,642	25,766,368
	<u><u>564,315,049</u></u>	<u><u>493,976,707</u></u>

22.1 Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

22.2 The significant change in the balance of trade receivables is disclosed in note 6 while the information about the credit exposures are disclosed in note 19.2.2.

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

	2022 SR	2021 SR
As at 1 January	28,077,953	28,282,433
Reversal during the year (note 10)	(614,655)	(204,480)
As at 31 December	<u><u>27,463,298</u></u>	<u><u>28,077,953</u></u>

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 23 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by such parties. The Group in the normal course of business carries out transactions with various related parties. Major transactions with related parties' occurred during the year were as follows:

<i>Related parties</i>	<i>Nature of transactions</i>	<i>Amount of transactions</i>	
		<i>2022</i> <i>SR</i>	<i>2021</i> <i>SR</i>
Meshraf General Contracting Company (affiliate)	Value of construction of new pharmacies	<b>120,174,994</b>	158,636,116
Digital Business System Company (affiliate)	IT services provided to the Group	<b>61,238,779</b>	66,804,441
Classic Travel & Tours Agency (affiliate)	Expenses recharged to the Group	<b>24,004,659</b>	27,503,428
Zahwa Trading Services Company (affiliate)	Purchases of inventories	<b>9,460,906</b>	7,257,131
Saudi Arabian Cooperative Insurance Co. - SAICO (affiliate)	Sales of goods	<b>6,313,191</b>	9,101,515
966 Motors Establishment (affiliate)	Services provided to the Group	<b>5,759,031</b>	6,690,989
Walaa Cooperative Insurance Company (affiliate)	Insurance services provided to the Group	<b>5,426,191</b>	6,662,442
Najm Suhail (affiliate)	Marketing services provided to the Group	<b>2,927,306</b>	2,326,986
Eastern Province Cement Company (affiliate)	Offices rental for the Group	<b>2,632,511</b>	1,869,794
Mawarid Trading Limited (Fellow subsidiary)	Purchases of inventories	<b>1,617,980</b>	3,928,682
ACE-Gallagher Arabia Insurance (Fellow subsidiary)	Insurance services provided to the Group	<b>426,447</b>	-
Ms. Nouf Saad Al-Farraj (shareholder)	Rental	<b>200,000</b>	200,000
Kanaf Charitable Association (affiliate)	Donation from pharmacies customers	<b>100,860</b>	129,049
Compensation of key management personnel of the Group were as follows:			
		<i>2022</i> <i>SR</i>	<i>2021</i> <i>SR</i>
Short-term employee benefits		<b>28,038,500</b>	17,390,500
End of services benefits		<b>1,570,471</b>	12,919,074
Total compensation		<b>29,608,971</b>	30,309,574

During the year ended 31 December 2022, the Board of Directors' compensation amounted to SR 2.6 million (2021: SR 1.3 million).

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 23 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

##### Terms and conditions of transactions with related parties:

The pricing policies and terms of payment of transactions with the related parties are approved by the Group's Board of Directors. The outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. For the year ended 31 December 2022, the Group has not recorded any impairment of receivable relates to amounts owed by related parties (2021: same). This assessment is undertaken each financial year through examining the financial position of the related party and the length of time past due.

Amounts due from a related party and due to related parties are disclosed in the consolidated statement of financial position as follows:

##### 23.1 Amounts due from a related party under current assets

	2022	2021
	SR	SR
Saudi Arabian Cooperative Insurance Co. - SAICO	<b>879,005</b>	2,293,739

##### 23.2 Amounts due to related parties under current liabilities

	2022	2021
	SR	SR
Digital Business System Company	<b>19,170,344</b>	10,494,227
Meshraf General Contracting Company	<b>17,161,166</b>	64,375,189
Classic Travel & Tours Agency	<b>859,331</b>	966,984
Zahwa Trading Services Company	<b>647,793</b>	279,476
Eastern Province Cement Company	<b>320,341</b>	219,964
Walaa Cooperative Insurance Company	<b>157,184</b>	154,259
Mawarid Trading Limited	<b>79,535</b>	529,365
ACE Gallagher Arabia Insurance	<b>57,502</b>	-
Kanaf Charitable Association	<b>14,194</b>	-
966 Motors Establishment	-	1,264,617
Accrued directors' remuneration	<b>2,460,000</b>	4,302,000
	<b>40,927,390</b>	82,586,081

#### 24 BANK BALANCES AND CASH

	2022	2021
	SR	SR
Bank balances	<b>129,115,934</b>	36,666,011
Cash on hand	<b>9,853,019</b>	9,640,623
	<b>138,968,953</b>	46,306,634

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2022	2021
	SR	SR
Bank balances and cash	<b>138,968,953</b>	46,306,634
Bank overdrafts	-	(55,977,491)
Cash and cash equivalents	<b>138,968,953</b>	(9,670,857)

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 25 SHARE CAPITAL AND PROPOSED INCREASE IN CAPITAL

Share capital is divided into 85 million shares of SR 10 each (31 December 2021: same).

25.1 On 15 Sha'ban 1442H (corresponding to 28 March 2021), the Company's shareholders resolved to increase the Company's share capital from SR 10 million to SR 850 million through the transfer of SR 788.5 million from retained earnings and SR 51.5 million from proposed increase in capital account to share capital. The legal formalities relating to such increase of the share capital were completed during 2021.

#### 26 DIVIDENDS

##### *Interim dividend for 2022*

On 25 Muharram 1444H (corresponding to 23 August 2022), the Extraordinary General Assembly approved to distribute interim cash dividend from Board of Directors of SR 1.25 per share amounting to SR 106.25 million for the first half of 2022.

##### *Final dividend for 2021*

On 30 November 2021 (corresponding to 25 Rabi Al-Thani I 1443H), the Board of Directors approved the payment of final cash dividends of SR 4.13 per share (totalling to SR 351 million). Dividends have been fully paid during 2021.

#### 27 TERM LOANS

	2022 SR	2021 SR
Term loans	400,000,000	-
Less: current portion	(122,916,668)	-
Non-current portion	<u>277,083,332</u>	<u>-</u>

27.1 Term loans represents Murabaha and Tawarooq, loans which were obtained from various local commercial banks and carry financial costs at normal commercial rates. The facilities are secured by promissory notes and order notes. These facilities carry borrowing cost at average rate of SIBOR plus 1%. These loans are repayable in semi-annual and quarterly installments over the average period of 3 years.

27.2 These facility agreements contain financial covenants which require the Group to maintain certain level of financial ratios. There have been no breaches of financial covenants of these facility agreements for the year ended 31 December 2022.

#### 28 EMPLOYEES' DEFINED BENEFIT LIABILITIES

The Group has a defined benefit plan (unfunded), which is a termination benefits plan in line with Labor Law requirement in the Kingdom of Saudi Arabia. The Group is required to recognise the provision for employees' end-of-service benefits for the amounts payable at the consolidated statement of financial position date in accordance with the employees' contracts of employment applicable to employees' accumulated periods of service. In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its defined benefit liabilities in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements. The main actuarial assumptions used to calculate the defined unfunded benefit liabilities are as follows:

	2022 (%)	2021 (%)
Discount rate	4.00%	3.25%
Future salary increases rate	2.00%	3.00%
Mortality rates	WHO-SA16	WHO-SA16
Rates of employee turnover	10.00%	10.00%
Retirement Assumption	60 Years	60 Years



## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 28 EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)

The following table represents the movement of the defined benefits plan as at 31 December:

	2022 SR	2021 SR
As at 1 January	125,348,335	104,128,287
Current service cost	23,615,931	22,459,181
Interest cost (note 12)	5,145,133	3,526,694
Remeasurement gains:		
Actuarial changes arising from changes in financial assumptions	(6,763,413)	-
Actuarial changes arising from changes in demographic assumptions	(2,722,114)	-
Experience adjustments	(130,889)	(291,587)
	(9,616,416)	(291,587)
Payments during the year	(12,434,622)	(4,474,240)
As at 31 December	<b>132,058,361</b>	<b>125,348,335</b>

A quantitative sensitivity analysis for significant assumption on the employees' defined benefit liabilities as at 31 December and the impact on the employees' defined benefit liabilities is shown as below:

	2022 SR	2021 SR
<i>Discount rate:</i>		
1% increase	(3,210,658)	(3,005,735)
1% decrease	3,326,239	3,116,035
<i>Long-term future salary</i>		
1% increase	3,359,140	3,093,277
1% decrease	(3,304,422)	(3,041,917)

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

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

	2022 SR	2021 SR
Within one year	7,173,392	5,017,660
After one year but not more than five years	40,946,538	37,195,256
More than five years	110,431,634	100,159,219
Total expected payments	<b>158,551,564</b>	<b>142,372,135</b>

The average duration of the defined benefit plan obligation at the end of the reporting period is 14.82 years (2021: 14.1 years).

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 29 TRADE PAYABLES AND ACCRUALS

	2022	2021
	SR	SR
Trade payables	426,186,418	393,684,912
Accrued expenses	36,714,602	52,620,430
Value-added tax payable, net	31,953,668	28,939,139
Interest payable	6,823,488	3,748,388
Retention payable	3,929,394	5,554,604
Other payables	28,511,875	46,084,881
	<u>534,119,445</u>	<u>530,632,354</u>

29.1 Trade payables are non-interest bearing and are generally on terms of 30 to 60 days.

29.2 Interest payable is normally settled quarterly throughout the financial year.

29.3 Other payables are non-interest bearing and have an average term of three months.

29.4 For explanations on the Group's liquidity risk management processes, refer to note 19.2.3.

#### 30 CONTRACT LIABILITIES

	2022	2021
	SR	SR
Arbahi loyalty programme	<u>26,527,537</u>	<u>40,545,990</u>

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

30.2 Set out below are the carrying amounts of contract liabilities and the movements during the year:

	2022	2021
	SR	SR
At 1 January	40,545,990	39,614,993
Deferred during the year	46,833,242	60,815,001
Recognised as revenue during the year	(60,851,695)	(59,884,004)
<b>At 31 December</b>	<u>26,527,537</u>	<u>40,545,990</u>

#### 31 BANK OVERDRAFTS AND SHORT TERM LOANS

	2022	2021
	SR	SR
Short-term loans	655,000,000	1,100,000,000
Bank overdrafts	-	55,977,491
	<u>655,000,000</u>	<u>1,155,977,491</u>

31.1 The bank overdrafts, Tawarooq, Murabaha and Tayseer short-term loans which are repayable within 12 months and were obtained from various local commercial banks to meet the working capital requirements and are secured by promissory notes for various local commercial banks, and by joint and several personal guarantees of the partners for certain facilities with a local commercial bank. These facilities carry borrowing cost at average rate of SIBOR plus 1%.

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 31 BANK OVERDRAFTS AND SHORT TERM LOANS (continued)

31.2 These facility agreements contain financial covenants which require the Company to maintain certain level of financial ratios. There have been no breaches of financial covenants of its facilities agreements for the year ended 31 December 2022.

#### 32 CONTINGENCIES AND COMMITMENTS

##### 32.1 Capital commitments

The Group has authorised future capital expenditure amounting to SR 186 million (2021: SR 420 million) relating to construction of new pharmacies, warehouses and purchase of other capital assets.

##### 32.2 Contingent liabilities

The Group's bankers have issued letter of guarantees to various third parties, on behalf of the Group, amounting to SR 9.4 million (2021: SR 4.2 million) for performance of certain contracts.

#### 33 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.

##### 33.1 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.

##### 33.2 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.

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 33 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

##### 33.3 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 a material impact on the Group's consolidated financial statements

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

#### 34 COMPARATIVE FIGURES

Certain comparative year amounts have been reclassified to conform with the classification used for the year ended 31 December 2022. However, such reclassification have not resulted in any additional impact on equity or profit for comparative amounts as below:

<i>Reclassification from</i>	<i>Reclassification to</i>	<i>SR</i>
Others - Selling and distribution expenses	Utilities - Selling and distribution expenses	4,929,490
Others - Selling and distribution expenses	IT services - Selling and distribution expenses	3,133,668
Gifts and free samples - Selling and distribution expenses	Others - Selling and distribution expenses	3,061,711
Employees' cost - General and administration expenses	Board of directors' remuneration - General and administration expenses	1,302,000
Others - Selling and distribution expenses	Loss on property and equipment written off - Other income / (expense), net	1,645,208

#### 35 EVENTS AFTER THE REPORTING PERIOD

In the opinion of management, there have been no further significant subsequent events since the year ended 31 December 2022 but before date of authorisation of these consolidated financial statements as mentioned in note 1 that would have a material impact on the consolidated financial position of the Group as reflected in these consolidated financial statements.

On 21 March 2023 (corresponding to 29 Sha'ban 1444H), the Board of Directors declared the final dividend of SR 1.25 per share (totalling to SR 106.25 million).

## Al Dawaa Medical Services Company (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

#### 36 BRANCHES

The Group operates through various branches and sales outlets located in the Kingdom of Saudi Arabia with the following commercial registration numbers:

Serial	Commercial Registration Number	City	Serial	Commercial Registration Number	City
1	2055005252	Jubail	47	2050099769	Dammam
2	2055005752	Jubail	48	2050109593	Dammam
3	5850069828	Abha	49	1010428089	Riyadh
4	5900034945	Jizan	50	1010428088	Riyadh
5	5950032607	Najran	51	1010425058	Riyadh
6	4700020119	Yanbu	52	4030276960	Jeddah
7	5800104454	Albaha	53	2050095574	Dammam
8	4603150096	Al Qunfudah	54	2050091536	Dammam
9	2056001400	Al Nairyah	55	5850035609	Abha
10	2055006224	Jubail	56	2251051269	Hofuf
11	4032050601	Taif	57	2050051362	Dammam
12	2050047786	Dammam	58	2050162533	Dammam
13	2251033359	Hofuf	59	2051242345	Khobar
14	2055025545	Jubail	60	2051242781	Khobar
15	2511015283	Hafr Albatin	61	5851008690	Bisha
16	3450008683	Arar	62	1122101682	Al Majmaah
17	3550022454	Tabuk			
18	3400010861	Skaka			
19	3452004992	Qurayyat			
20	3350039005	Hail			
21	1131303455	Buraidah			
22	2066003484	Ras Tanura			
23	4030142950	Jeddah			
24	4030316786	Jeddah			
25	2511024976	Hafr Albatin			
26	2511021391	Hafr Albatin			
27	5855066246	Khamis Musha			
28	5855345647	Khamis Musha			
29	3400017991	Skaka			
30	3400014841	Skaka			
31	2050139408	Dammam			
32	2051236791	Khobar			
33	2050148416	Dammam			
34	2050137129	Dammam			
35	2050134558	Dammam			
36	1010625009	Riyadh			
37	4030286836	Jeddah			
38	4650081067	Al Madinah			
39	4031231357	Makkah			
40	2051026298	Khobar			
41	2252061539	Almubarraz			
42	1010428087	Riyadh			
43	1010430093	Riyadh			
44	1010181366	Riyadh			
45	1131055138	Buraidah			
46	2051032340	Khobar			