

Al Dawaa Medical Services Company

(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 December 2021

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

Opinion

We have audited the financial statements of Al Dawaa Medical Services Company (A Saudi Closed Joint Stock Company) ("the Company"), which comprise the statement of the financial position as at 31 December 2021, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, 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 Financial Statements section of our report. We are independent of the Company in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the 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 management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged with Governance are responsible for overseeing the Company's financial reporting process.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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.

for Ernst & Young Professional Services



Marwan Al-Afaliq
Certified Public Accountant
Registration No. 422



Al Khobar: 27 Sha'ban 1443H
30 March 2022

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

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Notes	2021 SR	2020 SR
Revenue	6	5,034,381,999	4,962,076,825
Cost of revenue		(3,139,978,028)	(3,080,816,890)
GROSS PROFIT		1,894,403,971	1,881,259,935
EXPENSES			
Selling and distribution	10	(1,510,096,342)	(1,381,235,178)
General and administration	11	(118,059,818)	(107,122,710)
OPERATING PROFIT		266,247,811	392,902,047
Fair value gain / (loss) on swap derivatives liabilities	20.4	63,421,643	(94,948,262)
Finance costs	12	(82,771,407)	(60,268,546)
Other (expense) / income, net	13	(880,373)	23,408,435
PROFIT BEFORE ZAKAT		246,017,674	261,093,674
Zakat	14	(6,872,694)	(14,658,413)
PROFIT FOR THE YEAR		239,144,980	246,435,261
EARNINGS PER SHARE	15		
Basic and diluted earnings per share from profit for the year		2.81	2.90

Chairman of Board of Directors
Mr. Samir Abdulhadi

Managing Director
Mr. Waleed Al-Jaafary

Chief Financial Officer
Mr. Shareef Al-Aqabawi

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

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 SR	2020 SR
PROFIT FOR THE YEAR		239,144,980	246,435,261
OTHER COMPREHENSIVE (LOSS) / INCOME			
<i>Other comprehensive (loss) / income that will not be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains on employees' defined benefit liabilities	28	291,587	3,156,652
Fair value (loss) / gain on equity instruments designated at FVOCI	21	(11,746,428)	44,866,256
OTHER COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		(11,454,841)	48,022,908
TOTAL COMPREHENSIVE INCOME		227,690,139	294,458,169



Chairman of Board of Directors
Mr. Samir Abdulhadi



Managing Director
Mr. Waleed Al-Jaafary



Chief Financial Officer
Mr. Shareef Al-Aqabawi

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 SR	2020 SR
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	16	823,396,398	658,021,169
Right-of-use assets	17	1,046,053,673	756,330,855
Intangible assets	18	20,996,400	19,245,846
Investment in unconsolidated subsidiaries	19	204,739	204,739
Equity instruments designated at FVOCI	21	265,039,130	217,215,001
TOTAL NON-CURRENT ASSETS		2,155,690,340	1,651,017,610
CURRENT ASSETS			
Inventories	22	1,331,812,994	1,323,778,026
Trade receivables and prepayments	23	496,270,446	529,889,111
Amounts due from related parties	24	-	110,400
Right of return assets	6	979,201	1,628,649
Bank balances and cash	25	46,306,634	38,092,101
TOTAL CURRENT ASSETS		1,875,369,275	1,893,498,287
TOTAL ASSETS		4,031,059,615	3,544,515,897
EQUITY AND LIABILITIES			
EQUITY			
Share capital	26	850,000,000	10,000,000
Proposed increase in capital	26	-	51,500,000
Statutory reserve		28,914,498	5,000,000
Retained earnings		71,157,762	994,021,140
Fair value reserve of equity instruments designated at FVOCI		39,113,621	52,308,892
TOTAL EQUITY		989,185,881	1,112,830,032
NON-CURRENT LIABILITIES			
Lease liabilities	17	812,306,669	575,954,404
Employees' defined benefit liabilities	28	125,348,335	104,128,287
TOTAL NON-CURRENT LIABILITIES		937,655,004	680,082,691
CURRENT LIABILITIES			
Refund liabilities	6	1,468,398	2,821,040
Trade payables and accruals	29	532,003,048	456,170,146
Amounts due to related parties	24	81,932,382	38,172,440
Current portion of lease liabilities	17	226,815,253	188,620,656
Contract liabilities	30	40,545,990	39,614,993
Bank overdrafts and short-term loans	31	1,155,977,491	891,040,409
Swap derivatives liabilities	20.4	51,485,244	114,906,887
Zakat provision	14	13,990,924	20,256,603
TOTAL CURRENT LIABILITIES		2,104,218,730	1,751,603,174
TOTAL LIABILITIES		3,041,873,734	2,431,685,865
TOTAL EQUITY AND LIABILITIES		4,031,059,615	3,544,515,897

Chairman of Board of Directors
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Managing Director
Mr. Waleed Al-Jaafary

Chief Financial Officer
Mr. Shareef Al-Aqabawi


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


STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	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 2020	10,000,000	51,500,000	5,000,000	895,429,227	7,442,636	969,371,863
Profit for the year	-	-	-	246,435,261	-	246,435,261
Other comprehensive income	-	-	-	3,156,652	44,866,256	48,022,908
Total comprehensive income	-	-	-	249,591,913	44,866,256	294,458,169
Dividends (note 27)	-	-	-	(151,000,000)	-	(151,000,000)
Balance at 31 December 2020	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 27)	-	-	-	(351,334,290)	-	(351,334,290)
Transfer to share capital (note 26)	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


Chairman of Board of Directors
Mr. Samir Abdulhadi


Managing Director
Mr. Waleed Al-Jaafary


Chief Financial Officer
Mr. Shareef Al-Aqabawi

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

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

STATEMENT OF CASH FLOWS

31 December 2021

	Notes	2021 SR	2020 SR
OPERATING ACTIVITIES			
Profit before zakat		246,017,674	261,093,674
Adjustments to reconcile profit before zakat to net cash flows:			
Depreciation for property and equipment	16	145,596,344	139,234,017
Depreciation for right-of-use assets	17	183,147,472	166,005,586
Gain on disposal of property and equipment	13	(593,372)	(636,617)
Gain on derecognition due to termination of leases	13	(1,263,445)	(2,447,980)
Write off of property and equipment		1,645,208	10,938,803
Amortisation of intangible assets	18	5,124,294	3,888,403
Provision for employees' defined benefit liabilities	28	22,459,181	20,193,455
Finance costs	12	82,771,407	60,268,546
Fair value (gain) / loss on swap derivatives liabilities	20.4	(63,421,643)	94,948,262
		<u>621,483,120</u>	<u>753,486,149</u>
Working capital adjustments			
Inventories		(8,034,968)	(31,966,545)
Trade receivables and prepayments		33,618,665	(212,716,540)
Amounts due from related parties		110,400	1,534,686
Right of return assets		649,448	(702,190)
Refund liabilities		(1,352,642)	1,227,888
Trade payables and accruals		75,832,902	(101,186,901)
Amounts due to related parties		43,759,942	26,634,219
Contract liabilities		930,997	11,452,664
Cash flows from operations		<u>766,997,864</u>	<u>447,763,430</u>
Finance costs paid		(79,244,713)	(57,216,263)
Employees' defined benefit liabilities paid	28	(4,474,240)	(5,557,082)
Zakat paid	14	(13,138,373)	(6,559,252)
Net cash from operating activities		<u>670,140,538</u>	<u>378,430,833</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	16	(313,292,034)	(204,814,770)
Proceeds from disposal of property and equipment	16	1,268,625	760,400
Additions to intangible assets	18	(6,874,848)	(10,279,486)
Purchase of equity instruments designated at FVOCI	21	(76,961,590)	(67,886,772)
Proceeds from disposal of equity instruments designated at FVOCI	21	17,391,033	-
Net cash used in investing activities		<u>(378,468,814)</u>	<u>(282,220,628)</u>
FINANCING ACTIVITIES			
Proceeds from short-term loans		3,081,571,992	2,620,614,878
Repayment of short-term loans		(2,831,571,992)	(2,490,612,716)
Payment of principal portion of lease liabilities	17	(195,354,494)	(162,652,691)
Settlement for closure of certain lease contracts of branches		(1,705,489)	(4,329,659)
Dividends paid	27	(351,334,290)	(147,225,000)
Net cash used in financing activities		<u>(298,394,273)</u>	<u>(184,205,188)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(6,722,549)</u>	<u>(87,994,983)</u>
Cash and cash equivalents at 1 January	25	(2,948,308)	85,046,675
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	25	<u>(9,670,857)</u>	<u>(2,948,308)</u>

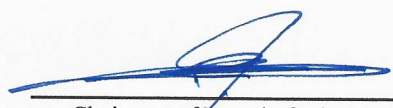
The attached notes from 1 to 36 form part of these financial statements.

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


STATEMENT OF CASH FLOWS (continued)

31 December 2021

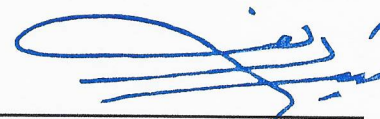
	Notes	2021 SR	2020 SR
SIGNIFICANT NON-CASH TRANSACTIONS:			
Additions to right-of-use assets and lease liabilities	17	<u>413,039,654</u>	<u>192,573,316</u>
Modification to right-of-use assets and lease liabilities	17	<u>74,416,828</u>	<u>62,213,531</u>
Derecognised of right-of-use assets due to termination	17	<u>(14,586,192)</u>	<u>(53,970,334)</u>
Derecognised of lease liabilities due to termination	17	<u>(17,555,126)</u>	<u>(60,747,973)</u>
Dividends settled against amounts due from a related party		<u>-</u>	<u>3,775,000</u>
Fair value gain / (loss) on swap derivatives liabilities	20.4	<u>63,421,643</u>	<u>(94,948,262)</u>
Fair value (gain) / loss on equity instruments designated at FVOCI	21	<u>(11,746,428)</u>	<u>44,866,256</u>
Transfer from retained earning to share capital	26	<u>788,500,000</u>	<u>-</u>
Transfer from proposed increase in capital to share capital	26	<u>51,500,000</u>	<u>-</u>



Chairman of Board of Directors
Mr. Samir Abdulhadi



Managing Director
Mr. Waleed Al-Jaafary



Chief Financial Officer
Mr. Shareef Al-Aqabawi

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2021

1 CORPORATE INFORMATION

- 1.1 Al Dawaa Medical Services Company (the "Company") is a Saudi Closed Joint Stock Company. The Company was initially registered as a Limited Liability Company in the Kingdom of Saudi Arabia ("KSA") under Commercial Registration number 2051025701 dated 23 Ramadan 1422H (corresponding to 8 December 2001) with branches in Khobar, Riyadh, Jeddah, and other cities across the Kingdom as detailed in note 36. On 17 Ramadan 1442H (corresponding to 29 April 2021), the shareholders of the Company resolved to change the legal status of the Company from "Limited Liability Company" to "Saudi Closed Joint Stock Company" using the same commercial registration number. The Ministry of Commerce announced the formation of Closed Joint Stock Company on 27 Shawwal 1442 H (corresponding to 8 June 2021).
- 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").
- 1.3 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.
- 1.4 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.
- 1.5 The Company is wholly owned by Saudi shareholders. The Company's registered office is located at P.O. box 4326, Al Khobar 31952, Kingdom of Saudi Arabia.
- 1.6 The financial statements of the Company as of 31 December 2021 were authorised for issuance by the Board of Directors on 25 Sha'ban 1443H (corresponding to 28 March 2022).

2 BASIS OF PREPARATION

2.1 Statement of compliance

These 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 ensured by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

The financial statements for the year ended 31 December 2021, are the first financial year after the conversion of the legal entity from a Limited Liability Company to a Saudi Closed Joint Stock Company. The Company has obtained approval from the Ministry of Commerce, that the Company can prepare the financial statements in the financial year in continuation of the previous legal entity provided its financial statements are prepared as usual, as the conversion of the legal form of the Company did not result in a new accounting unit.

The Company has accounted for its investment in subsidiaries at cost and no consolidated financial statements have been prepared as the subsidiaries have not yet commenced operations. The assets, liabilities and operations of the subsidiaries as of 31 December 2021 and for the year then ended are not material to the Company's financial statements.

2.2 Basis of measurement

These 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 Company has prepared the financial statements on the basis that it will continue to operate as a going concern.

2.3 Functional and presentation currency

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Current versus non-current classification

The Company presents assets and liabilities in the 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 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 Company classifies all other liabilities as non-current.

3.2 Fair value measurement

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

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

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

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 Company 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 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 Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Fair value measurement (continued)

For assets and liabilities that are recognised on a recurring basis, the Company 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 Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

3.3 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 Company expects to be entitled in exchange for those goods. The Company 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 Company generates revenue from the following sources:

3.3.1 Retail

The Company 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 Company 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 Company's policy to sell its products to 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 Company 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 Company has objective evidence that all criteria for acceptance have been satisfied. A receivable is recognised by the Company 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 Company 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 Company also provides retrospective volume rebates to certain customers once the quantity of purchased during a 12 months period exceeds the threshold specified in the contract. The rights of return and volume rebates give rise to variable consideration.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Revenue recognition (continued)

(i) *Variable consideration (continued)*

a) *Rights of return*

The Company uses the expected value method to estimate the variable consideration given the large number of contracts that have similar characteristics. The Company 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 Company 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 Company 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 Company 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 Company does not adjust any of the transaction prices for the time value of money.

(iii) *Loyalty points programme*

The Company operates 'Arbahi' loyalty programme which allows customers to accumulate points when they purchase products in the Company'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 Company considers the likelihood that the customer will redeem the points. The Company 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 Company'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 3.13 under Financial instruments – initial recognition, subsequent measurement and derecognition.

b) *Contract liabilities*

A contract liability is the obligation to transfer goods to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. Contract liabilities are recognised as revenue when the Company performs under the contract (i.e. transfers control of the related goods to the customer). Refer to accounting policies of financial liabilities in note 3.13 under Financial instruments – initial recognition, subsequent measurement and derecognition.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Revenue recognition (continued)

(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 Company 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 Company's refund liabilities arise from customers' right of return. The liability is measured at the amount the Company ultimately expects it will have to return to the customer. The Company 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 Company 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 Company 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 Company, 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 Company 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 Company 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

Transactions in foreign currencies are initially recorded by the Company 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 statement of profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 statement of financial position.

3.7 Cash dividend distribution to equity holders

The Company 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 Company. As per provisions of Companies' Law, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in 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 Company 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 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 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

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 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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Leases

The Company 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.

Company as lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company 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 Company 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 -19 years
Land	12.4-16.8 years

If ownership of the leased asset transfers to the Company 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 3.12 Impairment of non-financial assets.

3.9.2 Lease liabilities

At the commencement date of the lease, the Company 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 Company and payments of penalties for terminating the lease, if the lease term reflects the Company 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 Company 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 Company's capitalisation threshold and are considered to be insignificant for the statement of financial position for the Company as a whole. Payments for short-term leases and leases of low-value assets are recognised on a straight-line basis in the statement of profit or loss.

3.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds and interest charges in respect of lease liabilities.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 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 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 statement of profit 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 statement of profit or loss.

3.12 Impairment of non-financial assets

The Company 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 Company 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 Company's impairment calculation is based on detailed budgets and forecast calculations which are prepared separately for each of the Company'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 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 Company 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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 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 Company 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 statement of profit or loss.

3.13 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.

3.13.1 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 Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company 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 Company 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 Company's business model for managing the financial assets and the contractual terms of the cash flows.

The Company'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 Company 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 Company
- 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 Company

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3.13.1 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 statement of profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade receivables, bank balances, and amounts due from related parties and other receivables.

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

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

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company 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 Company 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 Company of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or
 - b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company 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 Company 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 Company could be required to repay.

The Company 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 Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3.13.1 Financial assets (continued)

Derecognition (continued)

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company 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 Company considers a financial asset in default when contractual payments are more than one year past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3.13.2 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 Company's financial liabilities include 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 Company
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at amortised cost (loans and borrowings)

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in 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 statement of profit or loss.

This category generally applies to 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 statement of profit or loss.

3.13.3 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the 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 Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Derivative financial instruments

Initial recognition and subsequent measurement

The Company 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 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.

3.15 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.

3.16 Cash and Cash equivalents

Bank balances and cash in the 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 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 Company's cash management.

3.17 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.

3.18 Provisions

Provisions are recognised when the Company 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 Company 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 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.

3.19 Employees' benefits

3.19.1 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 statement of financial position under accrued expenses.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Employees' benefits (continued)

3.19.2 Employees' defined benefit liabilities

The Company 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 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 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 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 Company policy.

3.19.3 Defined contribution plan

The Company 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 Company contributed SR 30.9 million (2020: SR 22.5 million) towards the fund.

3.20 Contingencies

Contingent liabilities are not recognised in the 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 statement of financial position under trade payables and accruals. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4.1 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

4.2 Amendments related to Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Company has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

5 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of the Company's 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 20
Sensitivity analyses disclosures	Note 20 and 28

5.1 Judgements

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

5.1.1 Determination and allocation of transaction prices

The Company is required to determine the transaction price in respect of each of its contracts with customers. In making such judgement the Company assess the impact of any variable consideration in the contract; due to rebates; right to return and customer loyalty programme. The Company 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 Company 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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

5 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

5.1 Judgements (continued)

5.1.2 *Determining the lease term of contracts with renewal and termination options - Company as lessee*

The Company 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 Company has a lease contract that include extension and termination option. The Company 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 Company 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 Company'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.

5.2 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 Company based its assumptions and estimates on parameters available when the 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 Company. 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 Company 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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

5 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

5.2 Estimates and assumptions (continued)

5.2.4 *Provision for expected credit losses of trade receivables*

The Company 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 Company's historical observed default rates. The Company 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 Company'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 Company's trade receivables is disclosed in note 20.2.2.

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.

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

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

The Company 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 Company.

The Company'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 Company 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 Company.

The Company 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 Company's past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

5 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

5.2 Estimates and assumptions (continued)

5.2.7 Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the 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 Company 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 Company considers breakage which represents the portion of the points issued that will never be redeemed. The Company 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 Company considers the mix of products that will be available in the future in exchange for loyalty points and customers' preferences. The Company 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 2021, the estimated liability for unredeemed points was SR 40.5 million (2020: SR 39.6 million).

5.2.9 Leases - Estimating the incremental borrowing rate

The Company 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 Company 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 Company '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 Company 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 Company 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 Company at period ends, the income is included within the cost of those inventories, and recognised in cost of sales 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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

6 REVENUE

6.1 Disaggregated revenue information

	2021 SR	2020 SR
Type of revenue		
Retail	4,885,988,843	4,795,486,216
Wholesale	148,393,156	166,590,609
Total revenue	5,034,381,999	4,962,076,825
Geographical markets		
Saudi Arabia	5,034,381,999	4,962,076,825
Timing of revenue recognition		
Goods transferred at a point in time	4,974,497,995	4,910,939,720
Goods transferred over time	59,884,004	51,137,105
Total revenue	5,034,381,999	4,962,076,825

6.2 Contract balances

	2021 SR	2020 SR
Trade receivables (note 23)	234,954,948	245,599,589
Contract liabilities (note 30)	40,545,990	39,614,993

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. Increase in Company's collections of trade receivables resulted in decrease in trade receivables. Provision for expected credit loss on trade receivables amounted to SR 28.07 million (2020: SR 28.28 million).

Contract liabilities include transaction price allocated to loyalty points not yet redeemed. The outstanding balances of these accounts increased in 2021 and 2020 due to the continuous increase in the Company's customer base and quantum of sales.

Set out below is the amount of revenue recognised from:

	2021 SR	2020 SR
Amounts included in contract liabilities at the beginning of the year	39,614,993	28,162,329

6.3 Right of return assets and refund liabilities

	2021 SR	2020 SR
Right of return assets (note 6.3.1)	979,201	1,628,649
Refund liabilities (note 6.3.2)	1,468,398	2,821,040

6.3.1 The right to returned asset represents the Company's right to recover products from customers where customers exercise their right of return under the Company'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. The Company recognises a refund liability for the amount of consideration received for which the entity does not expect to be entitled.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

6 REVENUE (continued)

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

	2021 SR	2020 SR
Within one year	40,545,990	39,614,993

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.

7 SEGMENT INFORMATION

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

- Retail: this segment includes the sale of goods to customers commonly at the store checkout for the sales via the Company'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 financial statements. Also, the Company's financing (including finance costs and other income) and zakat are managed on a Company basis and are not allocated to operating segments.

The information for each operating segment for the years ended 31 December 2021 and 31 December 2020 was as follows:

	Retail SR	Wholesale SR	Total SR
Year ended 31 December 2021			
Revenue	4,885,988,843	148,393,156	5,034,381,999
Cost of sales	(3,051,232,503)	(88,745,525)	(3,139,978,028)
Gross profit	1,834,756,340	59,647,631	1,894,403,971
Operating profit	250,486,451	15,761,360	266,247,811
<i>Unallocated income (expenses):</i>			
Fair value gain on swap derivatives liabilities			63,421,643
Finance costs			(82,771,407)
Other expense, net			(880,373)
Zakat			(6,872,694)
Profit for the year			239,144,980
Total assets	3,922,226,526	108,833,089	4,031,059,615
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			3,041,873,734
<i>Other disclosure:</i>			
Capital expenditures	420,000,145	-	420,000,145

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

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 2020			
Revenue	4,795,486,216	166,590,609	4,962,076,825
Cost of sales	(2,978,000,574)	(102,816,316)	(3,080,816,890)
Gross profit	1,817,485,642	63,774,293	1,881,259,935
Operating profit	366,336,702	26,565,345	392,902,047
<i>Unallocated income (expenses):</i>			
Fair value loss on swap derivatives liabilities			(94,948,262)
Finance costs			(60,268,546)
Other income, net			23,408,435
Zakat			(14,658,413)
Profit for the year			246,435,261
Total assets	3,455,903,000	88,612,897	3,544,515,897
Liabilities			
Allocated liabilities	1,390,095,105	35,643,464	1,425,738,569
<i>Unallocated liabilities</i>			
Bank overdrafts and short-term loans			891,040,409
Swap derivatives liabilities			114,906,887
Total liabilities			2,431,685,865
<i>Other disclosure:</i>			
Capital expenditures	160,000,000	-	160,000,000

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

Revenue from one customer amounted to SR 576.4 million, arising from sales in the retail segment.

8 CAPITAL MANAGEMENT

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

Management's policy is to maintain a strong capital base so as to maintain creditor and to sustain future development of the business. The Company 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 Company 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 Company's net debt to capital ratio at the end of the reporting year was as follows:

	<i>2021</i> <i>SR</i>	<i>2020</i> <i>SR</i>
Total Liabilities	3,041,873,734	2,431,685,865
Less: bank balances and cash	(46,306,634)	(38,092,101)
Net debt	2,995,567,100	2,393,593,764
Total equity	989,185,881	1,112,830,032
Equity and net debt	3,984,752,981	3,506,423,796
Gearing ratio	75%	68%

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

8 CAPITAL MANAGEMENT (continued)

In order to achieve this overall objective, the Company's capital management, among other things, aims to ensure that it meets financial covenants attached to the 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 breaches of certain financial covenants of its facility agreements in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 31 December 2020.

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 Company 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 Company 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 2021 and 31 December 2020.

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

		Fair value measurement using		
	Carrying value	Level 1	Level 2	Level 3
31 December 2021	SR	SR	SR	SR
Financial assets designated at fair value through OCI (equity instruments):				
Equity instruments designated at FVOCI	265,039,130	265,039,130	-	-
Derivatives financial instruments				
Swap derivatives liabilities	51,485,244	-	51,485,244	-
		Fair value measurement using		
	Carrying value	Level 1	Level 2	Level 3
31 December 2020	SR	SR	SR	SR
Financial assets designated at fair value through OCI (equity instruments):				
Equity instruments designated at FVOCI	217,215,001	217,215,001	-	-
Derivatives financial instruments				
Swap derivatives liabilities	114,906,887	-	114,906,887	-

Fair values of company'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 Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

10 SELLING AND DISTRIBUTION EXPENSES

	2021 SR	2020 SR
Employees' cost	937,953,523	855,086,492
Depreciation of right-of-use assets (note 17)	183,147,472	166,005,586
Depreciation of property and equipment (note 16)	142,741,286	137,335,528
Marketing, advertising and sales promotions	67,334,146	65,689,785
Utilities	41,891,089	34,002,307
Repair and maintenance	31,726,854	30,102,608
Governmental fees	17,532,712	17,660,414
Point of sale commissions	13,154,599	7,416,698
Travel and transportation	12,534,463	10,461,489
Cargo and packing	5,429,521	4,948,848
Insurance	4,247,065	3,624,845
Stationery and printing	3,404,045	5,035,328
Gifts and free samples	3,061,711	1,020,004
IT services	2,877,477	1,835,411
Car rent and expenses	1,165,670	467,610
Expense relating to short-term leases (note 17)	-	864,487
(Reversal) / provision for expected credit loss (note 23)	(204,480)	756,106
Others	42,099,189	38,921,632
	1,510,096,342	1,381,235,178

11 GENERAL AND ADMINISTRATION EXPENSES

	2021 SR	2020 SR
Employees' cost	61,233,889	49,396,311
IT services	33,163,208	27,231,964
Amortisation of intangible assets (note 18)	5,124,294	3,888,403
Depreciation of property and equipment (note 16)	2,855,058	1,898,489
Expense relating to short-term leases (note 17)	1,532,087	4,220,730
Professional fees	945,484	791,231
Travel	923,260	949,507
Vehicles expenses	788,430	616,060
Gifts and donation	50,000	5,097,718
Others	11,444,108	13,032,297
	118,059,818	107,122,710

12 FINANCE COSTS

	2021 SR	2020 SR
Interest on borrowings and bank overdrafts	47,304,243	28,868,818
Interest on lease liabilities (note 17)	31,940,470	28,347,445
Interest cost on employees' defined benefit liabilities (note 28)	3,526,694	3,052,283
	82,771,407	60,268,546

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

13 OTHER (EXPENSE) / INCOME, NET

	2021 SR	2020 SR
Dividend income from equity instruments designated at FVOCI (note 21)	6,523,164	3,325,648
Refund of human resource development fund (HRDF)	5,142,860	4,451,931
Gain on swap derivative instruments	2,623,646	7,129,328
Gain on derecognition due to termination of leases (note 17)	1,263,445	2,447,980
Gain on disposal of property and equipment (note 16)	593,372	636,617
Insurance claim settlement	122,165	453,638
Lab testing	332	1,761,438
Admin services (note 24)	-	2,700,000
Loss from foreign currencies exchange	(9,043,366)	(3,321,929)
Others, net	(8,105,991)	3,823,784
	(880,373)	23,408,435

14 ZAKAT

14.1 Charge for the year

The Company is subject to zakat at the rate of 2.5% (2020: 2.5%) of zakat base calculated in accordance with zakat regulations enforced in the Kingdom of Saudi Arabia.

The zakat charge consists of:

	2021 SR	2020 SR
Current year provision	6,872,694	14,658,413

The provision is based on the following:

	2021 SR	2020 SR
Equity	1,933,527,130	1,633,663,004
Opening provisions and other adjustments	202,587,421	165,917,990
Book value of long term assets	(2,155,485,600)	(1,652,626,976)
	(19,371,049)	146,954,018
Zakatable results for the year	294,935,467	381,317,813
Zakat base	294,935,467	528,271,831

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 Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

14 ZAKAT (continued)

14.2 Movements in provision during the year

The movement in the zakat provision was as follows:

	2021 SR	2020 SR
At the beginning of the year	20,256,603	12,157,442
Provided during the year	6,872,694	14,658,413
Payments during the year	(13,138,373)	(6,559,252)
At the end of the year	13,990,924	20,256,603

14.3 Status of assessments

Zakat assessments have been agreed with the ZATCA up to 2016. The Company's zakat return for the years 2017 to 2020 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 Company'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 Company.

15 EARNINGS PER SHARE (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to shareholders of the Company 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:

	2021 SR	2020 SR
Profit for the year	239,144,980	246,435,261
Weighted average number of ordinary shares outstanding	85,000,000	85,000,000
Basic and diluted earnings per share from profit for the year	2.81	2.90

The weighted average number of shares for the purpose of calculation of basic and diluted earnings per share for the year ended 31 December 2020 has been adjusted to reflect the effect of the capital increase from 200 thousands shares to 85 million shares during the current year with no additional consideration as if the capital increase occurred from the beginning of the prior period without a corresponding change in resources in accordance with the requirements of IAS 33 Earnings per Share.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

16 PROPERTY AND EQUIPMENT

For the year ended 31 December 2021										
	Land	Leasehold	Motor	Furniture and	Office	Building	Tools and	Machinery	Capital work	Total
	SR	improvements	vehicles and	fixtures	equipment		air-conditions	and	in progress	SR
	SR	SR	vans	SR	SR	SR	SR	equipment	SR	SR
<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 Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

16 PROPERTY AND EQUIPMENT (continued)

For the year ended 31 December 2020

	<i>Land</i>	<i>Leasehold</i>	<i>Motor</i>	<i>Furniture and</i>	<i>Office</i>	<i>Building</i>	<i>Tools and</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>air-conditions</i>	<i>in progress</i>	<i>SR</i>
	<i>SR</i>	<i>SR</i>	<i>vans</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<i>Cost:</i>									
At beginning of the year	34,549,542	508,062,568	102,013,704	247,915,951	51,314,092	212,508,214	96,497,120	52,291,129	1,305,152,320
Additions	2,600,000	14,101,000	19,829,045	36,616,686	10,174,212	-	5,587,578	115,906,249	204,814,770
Disposals	-	-	(3,266,770)	-	-	-	-	-	(3,266,770)
Transfers	-	76,490,236	-	5,941,816	-	-	170,447	(82,602,499)	-
Write-off	-	(60,198,135)	-	(10,139,718)	(316,234)	-	(2,672,205)	-	(73,326,292)
At end 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
<i>Accumulated depreciation:</i>									
At beginning of the year	-	321,985,786	80,879,839	175,704,530	31,524,740	13,839,565	77,714,858	-	701,649,318
Charge for the year	-	79,511,863	9,331,528	31,444,399	2,591,142	13,287,332	3,067,753	-	139,234,017
Disposals	-	-	(3,142,987)	-	-	-	-	-	(3,142,987)
Write-off	-	(51,496,789)	-	(8,562,192)	(270,580)	-	(2,057,928)	-	(62,387,489)
At end of the year	-	350,000,860	87,068,380	198,586,737	33,845,302	27,126,897	78,724,683	-	775,352,859
<i>Net book amounts:</i>									
At 31 December 2020	37,149,542	188,454,809	31,507,599	81,747,998	27,326,768	185,381,317	20,858,257	85,594,879	658,021,169

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

16 PROPERTY AND EQUIPMENT (continued)

- 16.1 The Company'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, which have not commenced operation yet. The related capital commitments are reported in note 32.1.
- 16.3 In 2021, the Company sold property and equipment with a total net carrying amount of SR 0.7 million (2020: SR 0.1 million) for a cash consideration of SR 1.3 million (2020: SR 0.7 million). The net gains on these disposals amount of SR 0.6 million (2020: SR 0.6 million) were recognised as part of other income in the statement of profit or loss (note 13).
- 16.4 The depreciation charge has been allocated as follows:

	2021 SR	2020 SR
Selling and distribution expenses (note 10)	142,741,286	137,335,528
General and administration expenses (note 11)	2,855,058	1,898,489
	145,596,344	139,234,017

17 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company 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:

	Property SR	Land SR	Total SR
As at 1 January 2020	689,928,402	31,591,526	721,519,928
Additions	187,907,253	4,666,063	192,573,316
Modifications	62,213,531	-	62,213,531
Derecognised due to termination	(31,843,717)	(22,126,617)	(53,970,334)
Depreciation expense	(165,143,647)	(861,939)	(166,005,586)
At 31 December 2020	743,061,822	13,269,033	756,330,855
Additions	413,039,654	-	413,039,654
Modifications	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

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

	2021 SR	2020 SR
As at 1 January	764,575,060	733,188,877
Additions	413,039,654	192,573,316
Modifications	74,416,828	62,213,531
Derecognised due to termination	(17,555,126)	(60,747,973)
Accretion of interest	31,940,470	28,347,445
Payments	(227,294,964)	(191,000,136)
At 31 December	1,039,121,922	764,575,060
Current	226,815,253	188,620,656
Non-current	812,306,669	575,954,404

The maturity analysis of lease liabilities are disclosed in note 20.2.3.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

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

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

	2021 SR	2020 SR
Depreciation expense of right-of-use assets (note 10)	183,147,472	166,005,586
Interest expense on lease liabilities (note 12)	31,940,470	28,347,445
Expense relating to short-term leases included in selling and distribution expenses (note 10)	-	864,487
Expense relating to short-term leases included in general and administration expenses (note 11)	1,532,087	4,220,730
Gain on derecognition due to termination of leases (note 13)	1,263,445	2,447,980
Total amount recognised in statement of profit or loss	217,883,474	201,886,228

The Company had total cash outflows for leases of SR 230.5 million in 2021 (2020: SR 200.4 million). The Company also had non-cash additions to right-of-use assets and lease liabilities of SR 413 million in 2021 (2020: SR 192.6 million).

18 INTANGIBLE ASSETS

	2021 SR	2020 SR
<i>Cost:</i>		
At the beginning of the year	38,030,552	27,751,066
Additions	6,874,848	10,279,486
At the end of the year	44,905,400	38,030,552
<i>Accumulated amortisation:</i>		
At the beginning of the year	18,784,706	14,896,303
Charge for the year	5,124,294	3,888,403
At the end of the year	23,909,000	18,784,706
<i>Net book amount as at 31 December</i>	20,996,400	19,245,846

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

19 INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

Investment in unconsolidated subsidiaries represents the Company's 100% investment in Ronzac GmbH and Hollinz GmbH, both companies are registered in Germany. The subsidiaries are engaged in granting (marketing) licenses of pharmaceutical products, consumer goods and food products.

The Company also has 100% investment in Al Dawaa Medical Company Services FZ-LLC, a company registered in Dubai, United Arab Emirates as marketing office.

In addition, the Company is effectively owning 100% in Glanzzen FZ-LLC, a company registered in Dubai, United Arab Emirates. Glanzzen engages in marketing and healthcare management consulting activities.

Further, during the current year, the Company has established a new subsidiary, directly 100% owned in KSA. The subsidiary, Premier Medical Devices Manufacturing, is a Limited Liability Company owned by one person registered in Sudair, Kingdom of Saudi Arabia under Commercial Registration numbered 1126106621. The company is engaged in manufacture of disposable medical products and consumables, manufacture of medical examination tables and surgical furniture, manufacture of medical beds with mechanical motion additives, manufacture of medical thermometers and manufacture of respirators and medical anesthesia.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

20.1 Financial instruments

The financial instruments are categorised as follows:

	2021 SR	2020 SR
<i>20.1.1 Financial assets at amortised cost:</i>		
Trade receivables	234,954,948	245,599,589
Other receivables	25,766,368	28,728,655
Amounts due from related parties	-	110,400
Bank balances	36,666,011	32,557,717
	<u>297,387,327</u>	<u>306,996,361</u>
<i>20.1.2 Financial assets designated at fair value through OCI (equity instruments):</i>		
Equity instruments designated at FVOCI	<u>265,039,130</u>	<u>217,215,001</u>
<i>20.1.3 Financial liabilities at amortised cost:</i>		
Trade payables	393,684,912	289,379,178
Retention payable	5,554,604	9,759,011
Other payables	47,455,575	38,743,574
Amounts due to related parties	81,932,382	38,172,440
Lease liabilities	1,039,121,922	764,575,060
Bank overdrafts and short-term loans	1,155,977,491	891,040,409
	<u>2,723,726,886</u>	<u>2,031,669,672</u>
<i>20.1.4 Derivatives financial instruments</i>		
Interest rate swaps	<u>51,485,244</u>	<u>114,906,887</u>

20.2 Financial instruments risk management objectives and policies

The Company's principal financial liabilities, other than derivatives, comprise trade payables, value-added tax payable, 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 Company's operations. The Company's principal financial assets include trade receivables, other receivables, amounts due from related parties and bank balances that derive directly from its operations. The Company also holds investments in equity instruments and enters into derivative transactions.

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

20.2.1 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 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 2021 and 2020.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

20.2 Financial instruments risk management objectives and policies (continued)

20.2.1 Market risk (continued)

(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 Company's exposure to the risk of changes in market interest rates relates primarily to the Company's borrowing which expose the Company 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 Company's profit before zakat is affected through the impact on floating rate borrowings, as follows:

	2021 SR	2020 SR
Interest rate – increase by 100 basis points	11,000,000	8,500,000
Interest rate – decrease by 100 basis points	(11,000,000)	(8,500,000)

(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 Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency).

The Company 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 Company believes that the currency risk for financial instruments denominated in US \$ and AED is not significant. The Company is exposed to currency risk on transactions and balances in GBP and EUR. The Company 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 Company's profit is due to changes in the fair value of monetary assets and liabilities. The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in GBP rate	Effect on profit
31 December 2021	+10%	(117,084)
	-10%	117,084
31 December 2020	+10%	(471,560)
	-10%	471,560
	Change in EUR rate	Effect on profit
31 December 2021	+10%	(663,209)
	-10%	663,209
31 December 2020	+10%	(33,345)
	-10%	33,345

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

20.2 Financial instruments risk management objectives and policies (continued)

20.2.1 Market risk (continued)

(iii) Equity price risk

The Company's listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company 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 Company's senior management on a regular basis. The Company'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 265 million (2020: SR 217 million). Given that the changes in fair values of the equity investments held are strongly positively correlated with changes of the market index, the Company has determined that an increase/(decrease) of 10% on the market index could have an impact of approximately SR 26.5 million (2020: SR 21.7 million) increase/(decrease) on the other comprehensive income in statement of comprehensive income.

20.2.2 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 Company 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 Company'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 20.1.1. The Company does not hold collateral as security. The Company 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 Company'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
31 December 2021			
Current	2%	152,922,842	3,196,087
1 - 90 days	6%	78,663,717	5,058,077
91-180 days	20%	11,478,193	2,281,865
181-270 days	46%	311,340	143,683
271-360 days	89%	743,417	657,998
Over 361	89%	18,913,392	16,740,243
		263,032,901	28,077,953

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

20.2 Financial instruments risk management objectives and policies (continued)

20.2.2 Credit risk (continued)

	<i>Expected credit loss rate</i>	<i>Gross trade receivables SR</i>	<i>Expected credit loss SR</i>
<i>31 December 2020</i>			
Current	1%	232,628,337	2,326,283
1 - 90 days	20%	8,250,422	1,650,084
91 - 150 days	30%	3,539,201	1,061,759
151 - 365 days	40%	9,268,704	3,707,482
366 - 730 days	50%	1,317,066	658,533
Over 730 days	100%	18,878,292	18,878,292
		<u>273,882,022</u>	<u>28,282,433</u>

(ii) Bank balances

Credit risk from balances with banks is managed by the Company's treasury department in accordance with the Company's policy. The Company seeks to manage its credit risk with respect to banks by only dealing with reputable banks. The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2021 and 2020 is the carrying amounts as illustrated in note 20.1.1.

20.2.3 Liquidity risk

Liquidity risk is the risk that the Company 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 Company 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 Company's reputation. The Company 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 Company maintains different lines of credit. The Company'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 Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company'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 Company to manage risk concentrations at both the relationship and industry levels.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2 Financial instruments risk management objectives and policies (continued)

20.2.3 Liquidity risk (continued)

The table below summarises the maturity profile of the Company'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>31 December 2021</i>	<i>less than a year</i> SR	<i>1 to 5 years</i> SR	<i>> 5 years</i> SR	<i>Total</i> SR
Trade payables	393,684,912	-	-	393,684,912
Retention payable	5,554,604	-	-	5,554,604
Other payables	47,455,575	-	-	47,455,575
Amounts due to related parties	81,932,382	-	-	81,932,382
Bank overdrafts and short-term loans	1,155,977,491	-	-	1,155,977,491
Lease liabilities	226,815,253	633,002,374	530,116,411	1,389,934,038
	1,911,420,217	633,002,374	530,116,411	3,074,539,002

<i>31 December 2020</i>	<i>less than a year</i> SR	<i>1 to 5 years</i> SR	<i>> 5 years</i> SR	<i>Total</i> SR
Trade payables	289,379,178	-	-	289,379,178
Retention payable	9,759,011	-	-	9,759,011
Other payables	38,743,574	-	-	38,743,574
Amounts due to related parties	38,172,440	-	-	38,172,440
Bank overdrafts and short-term loans	891,040,409	-	-	891,040,409
Lease liabilities	188,620,656	543,981,479	305,907,169	1,038,509,304
	1,455,715,268	543,981,479	305,907,169	2,305,603,916

20.3 Changes in liabilities arising from financing activities

	<i>1 January</i> <i>2021</i> SR	<i>Cash outflow</i> SR	<i>Others</i> SR	<i>31 December</i> <i>2021</i> SR
Dividends payable	-	(351,334,290)	351,334,290	-
Lease Liabilities	764,575,060	(227,294,964)	501,841,826	1,039,121,922
Short-term loans	850,000,000	(2,831,571,992)	3,081,571,992	1,100,000,000
Total liabilities from financing activities	1,614,575,060	(3,410,201,246)	3,934,748,108	2,139,121,922

	<i>1 January</i> <i>2020</i> SR	<i>Cash outflow</i> SR	<i>Others</i> SR	<i>31 December</i> <i>2020</i> SR
Dividends payable	-	(151,000,000)	151,000,000	-
Lease Liabilities	733,188,877	(191,000,136)	222,386,319	764,575,060
Short-term loans	719,997,838	(2,490,612,716)	2,620,614,878	850,000,000
Total liabilities from financing activities	1,453,186,715	(2,832,612,852)	2,994,001,197	1,614,575,060

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.4 Derivatives financial instruments

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

The Company's risk management strategy and how it is applied to manage risk are explained in note 20.2.

The Company 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 Company uses interest rate swap agreements to manage its exposure to interest rate risk. The statement of financial position included SR 51,485,244 (2020: SR 114,906,887) relates to swap derivatives. The movement of the fair value gain amounted to SR 63,421,643 (2020: fair value loss amounted to SR 94,948,262) of these derivatives were recognised in the statement of profit or loss.

21 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 Company 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:

	2021 SR	2,020 SR
Saudi Pharmaceutical Industries and Medical Appliances Corp. ("SPIMACO")	229,228,996	164,637,564
Saudi Arabian Oil Company ("Saudi Aramco")	35,810,134	52,577,437
	265,039,130	217,215,001

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

	2021 SR	2020 SR
At 1 January	217,215,001	104,461,973
Purchase	76,961,590	67,886,772
Sales (note 21.1)	(17,391,033)	-
Change in fair value	(11,746,428)	44,866,256
Balance at 31 December	265,039,130	217,215,001

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

21.2 The Company received dividends amount of SR 4.8 million from SPIMACO (2020: SR 1.6 million) and amount of SR 1.8 million from Saudi Aramco (2020: SR 1.7 million), totalling of amount SR 6.6 million (2020: SR 3.3 million). The received dividends were recognised as part of other income in the statement of profit or loss (note 13).

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

22 INVENTORIES

	2021 SR	2020 SR
Inventories relating to pharmacies	1,306,657,421	1,315,360,032
Inventories relating to distribution	30,495,046	24,039,264
	1,337,152,467	1,339,399,296
Less: provision for slow moving inventory items (note 22.2)	(5,339,473)	(15,621,270)
	1,331,812,994	1,323,778,026

22.1 The cost of inventory recognised as expense amounted to SR 3,139 million (2020: SR 3,081 million).

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

	2021 SR	2020 SR
At the beginning of the year	15,621,270	15,621,270
Reversal during the year	(10,281,797)	-
At the end of the year	5,339,473	15,621,270

23 TRADE RECEIVABLES AND PREPAYMENTS

	2021 SR	2020 SR
Trade receivables	263,032,901	273,882,022
Less: provision for expected credit loss (note 23.3)	(28,077,953)	(28,282,433)
	234,954,948	245,599,589
Advances to suppliers	221,130,707	242,046,984
Prepaid expenses	14,418,423	13,513,883
Other receivables	25,766,368	28,728,655
	496,270,446	529,889,111

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

23.2 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 20.2.2.

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

	2021 SR	2020 SR
As at 1 January	28,282,433	28,886,861
(Reversal) / charge during the year (note 10)	(204,480)	756,106
Write-off	-	(1,360,534)
As at 31 December	28,077,953	28,282,433

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

24 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties. The Company 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>2021</i>	<i>2020</i>
		<i>SR</i>	<i>SR</i>
Meshraf General Contracting Company (affiliate)	Value of construction of new pharmacies	158,636,116	110,678,773
Classic Travel & Tours Agency (affiliate)	Expenses recharged to the Company	27,503,428	21,907,374
Digital Business System Company (affiliate)	IT services provided to the Company	66,804,441	23,671,940
	Admin Services provided by the Company	-	2,700,000
Mawarid Trading Limited (Fellow subsidiary)	Purchases of inventories	3,928,682	-
Ms. Nouf Saad Al-Farraj (shareholder)	Rental	200,000	200,000
966 Motors Establishment (affiliate)	Services provided to the Company	6,690,989	265,559

Compensation of key management personnel of the Company were as follows:

	<i>2021</i>	<i>2020</i>
	<i>SR</i>	<i>SR</i>
Short-term employee benefits	17,390,500	3,007,487
End of services benefits	12,919,074	130,000
Total compensation	30,309,574	3,137,487

During the year ended 31 December 2021, the Board of Directors' compensation amounted to SR 1.3 million (2020: nil).

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 Company's management. The outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. For the year ended 31 December 2021, the Company has not recorded any impairment of receivable relates to amounts owed by related parties (2020: 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 related parties and due to related parties are disclosed in the statement of financial position as follows:

24.1 Amounts due from related parties under current assets

	<i>2021</i>	<i>2020</i>
	<i>SR</i>	<i>SR</i>
Smart Technologies Development Company	-	107,267
Others	-	3,133
	-	110,400

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

24 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

24.2 Amounts due to related parties under current liabilities

	2021 SR	2020 SR
Meshraf General Contracting Company	64,375,189	24,538,147
Digital Business System Company	10,494,227	10,164,691
966 Motors Establishment	1,264,617	-
Classic Travel & Tours Agency	966,984	624,680
Mawarid Trading Limited	529,365	-
Mr. Waleed Mohammed Al-Jaafary	-	2,844,922
	77,630,382	38,172,440

24.3 Amounts due to key management

	2021 SR	2020 SR
Accrued directors' remuneration	4,302,000	-

25 BANK BALANCES AND CASH

	2021 SR	2020 SR
Bank balances	36,666,011	32,557,717
Cash on hand	9,640,623	5,534,384
	46,306,634	38,092,101

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

	2021 SR	2020 SR
Bank balances and cash	46,306,634	38,092,101
Bank overdrafts	(55,977,491)	(41,040,409)
Cash and cash equivalents	(9,670,857)	(2,948,308)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

26 SHARE CAPITAL AND PROPOSED INCREASE IN CAPITAL

Share capital is divided into 85 million shares (31 December 2020: 200,000 shares) of SR 10 (31 December 2020: SR 50) each distributed among the shareholders as follows:

	<i>Percentage of ownership</i>		<i>2021</i> <i>(%)</i>	<i>2020</i> <i>(%)</i>	<i>2021</i> <i>SR</i>	<i>2020</i> <i>SR</i>
HRH Prince Turki Bin Mohammed Bin Fahad	24.0000%	24.0000%			204,000,000	2,400,000
Mawared Holding Company	49.9995%	0.0000%			424,995,750	-
Mr. Mohammed Saad Al-Farraj	9.2495%	59.2490%			78,620,750	5,924,900
Mr. Abdullah Saad Al-Farraj	9.2500%	9.2500%			78,625,000	925,000
Mr. Waleed Mohammed Al-Jaafary	2.5000%	2.5000%			21,250,000	250,000
Ms. Hussa Saad Al-Farraj	2.5000%	2.5000%			21,250,000	250,000
Ms. Nouf Saad Al-Farraj	2.5000%	2.5000%			21,250,000	250,000
Mr. Sultan Mahdi Al-Anzi	0.0005%	0.0005%			4,250	50
Mr. Ali Salem Al-Qafil	0.0005%	0.0005%			4,250	50
					850,000,000	10,000,000

26.1 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 the year.

26.2 Further, on 15 Sha'ban 1442H (corresponding to 28 March 2021), 99,999 shares of Mr. Mohammed Saad Al-Farraj has been transferred to Mawared Holding Company. The legal formalities related to the change in the shareholders ownership were completed during the year.

27 DIVIDENDS

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 the year.

On 1 January 2020 (corresponding to 6 Jumada Al-Ula 1441H), the board of directors approved the payment of final cash dividends of SR 755 per share (totalling to SR 151 million). Dividends have been fully paid during the year.

28 EMPLOYEES' DEFINED BENEFIT LIABILITIES

The Company 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 Company is required to recognise the provision for employees' end-of-service benefits for the amounts payable at the 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:

	<i>2021</i> <i>(%)</i>	<i>2020</i> <i>(%)</i>
Discount rate	3.25%	3.25%
Future salary increases rate	3.00%	3.00%

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

28 EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)

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

	2021 SR	2020 SR
As at 1 January	104,128,287	89,596,283
Current service cost	22,459,181	20,193,455
Interest cost (note 12)	3,526,694	3,052,283
Remeasurement gains:		
Actuarial changes arising from changes in financial assumptions	-	566,290
Actuarial changes arising from changes in demographic assumptions	-	(1,686,072)
Experience adjustments	(291,587)	(2,036,870)
	(291,587)	(3,156,652)
Payments during the year	(4,474,240)	(5,557,082)
As at 31 December	125,348,335	104,128,287

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:

	2021 SR	2020 SR
<i>Discount rate:</i>		
1% increase	(3,005,735)	(2,237,619)
1% decrease	3,116,035	2,312,933
<i>Long-term future salary</i>		
1% increase	3,093,277	2,295,941
1% decrease	(3,041,917)	(2,264,576)

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:

	2021 SR	2020 SR
Within one year	5,017,660	6,558,366
After one year but not more than five years	37,195,256	32,796,269
More than five years	100,159,219	79,363,274
Total expected payments	142,372,135	118,717,909

The average duration of the defined benefit plan obligation at the end of the reporting period is 14.1 years (2020: 12.76 years).

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

29 TRADE PAYABLES AND ACCRUALS

	2021 SR	2020 SR
Trade payables	393,684,912	289,379,178
Accrued expenses	56,368,818	83,814,879
Value-added tax payable, net	28,939,139	34,473,504
Retention payable	5,554,604	9,759,011
Other payables	47,455,575	38,743,574
	532,003,048	456,170,146

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

29.2 For explanations on the Company's liquidity risk management processes, refer to note 20.2.3.

30 CONTRACT LIABILITIES

	2021 SR	2020 SR
Arbahi loyalty programme	40,545,990	39,614,993

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:

	2021 SR	2020 SR
At 1 January	39,614,993	28,162,329
Deferred during the year	60,815,001	62,589,769
Recognised as revenue during the year	(59,884,004)	(51,137,105)
At 31 December	40,545,990	39,614,993

31 BANK OVERDRAFTS AND SHORT TERM LOANS

	2021 SR	2020 SR
Short-term loans	1,100,000,000	850,000,000
Bank overdrafts	55,977,491	41,040,409
	1,155,977,491	891,040,409

31.1 The bank overdrafts, Tawarooq, Murabaha and Tayseer short-term loans were obtained from various local commercial banks to meet the working capital requirements and are secured by joint and several personal guarantees of the partners, promissory notes and assignments of rights arising from insurance policies. These facilities carry borrowing cost at average rate of SAIBOR + 1.63%.

31.2 The facility agreements have certain financial covenants require the Company to maintain certain level of financial ratios. At 31 December 2021, the Company was not in compliance with financial covenant relating to maintenance of current ratio under certain of its facility agreements. However, the management has negotiated with the local commercial banks and believes that such matter has no impact on the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

32 CONTINGENCIES AND COMMITMENTS

32.1 Capital commitments

The Company has authorised future capital expenditure amounting to SR 420 million (2020: SR 160 million) relating to construction of new pharmacies, warehouses and purchase of other capital assets.

32.2 Contingent liabilities

The Company's bankers have issued letter of guarantees to various third parties, on behalf of the Company, amounting to SR 4.2 million (2020: SR 8.4 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 Company's financial statements are disclosed below. The Company 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 Company.

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 Company 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 Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

33 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

33.3 Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 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 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

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

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling 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.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

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

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. 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.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The amendments are not expected to have a material impact on the Company.

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

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The amendments are not expected to have a material impact on the Company.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

33 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. 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. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

33.8 IAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Company.

33.9 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 Company.

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

34 COVID-19 ASSESSMENT

A novel strain of coronavirus ("COVID-19") was first identified at the end of December 2019, subsequently in March 2020 was declared as a pandemic by the World Health Organization ("WHO"). COVID-19 continues to spread throughout in nearly all regions around the world including the Kingdom of Saudi Arabia and resulted in travel restrictions and curfew in the cities which resulted in a slowdown of economic activities and shutdowns of many sectors at global and local levels.

The extent to which coronavirus pandemic impacts the Company's business, operations, and financial results, is uncertain and depends on many factors and future developments, that the Company may not be able to estimate reliably during the current period. These factors include the virus transmission rate, the duration of the outbreak, precautionary actions that may be taken by governmental authorities to reduce the spread of the epidemic and the impact of those actions on economic activity, the impact to the businesses of the Company's customers and partners and other factors.

As far and as of the date of preparation of the financial statements for the year ended 31 December 2021, the Company's operations did not have a significant negative impact from the COVID-19 outbreak. The Company's management will continue to evaluate the nature and extent of the impact of COVID-19 on the Company's business and financial results.

35 EVENTS AFTER THE REPORTING PERIOD

Subsequent to the year ended 31 December 2021, the Company got their shares listed in Tadawul on 14 March 2022.

In the opinion of management, there have been no further significant subsequent events since the year ended 31 December 2021 but before date of authorisation of these financial statements as mentioned in note 1 that would have a material impact on the financial position of the Company as reflected in these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

36 BRANCHES

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

Serial	Commercial Registration Number	Serial	Commercial Registration Number	Serial	Commercial Registration Number
1	2055005252	62	4030142950	123	4030276960
2	2055005523	63	4030316786	124	2050095574
3	2055005752	64	2511024976	125	2050091536
4	5851008690	65	2511021391	126	2050108864
5	5850069828	66	5855066246	127	5850035609
6	5864069829	67	5855345647	128	2251051269
7	5900034945	68	3400017991	129	2050051362
8	5950032607	69	3400014841	130	2050094367
9	5852007087	70	2050139408	131	1122101682
10	4700020119	71	2051236791		
11	5800104454	72	2050148416		
12	4603150096	73	2050137129		
13	2056001400	74	2050134558		
14	2055006224	75	1010625009		
15	2052000854	76	2051232106		
16	4032050601	77	2051231789		
17	2050047786	78	2051229410		
18	2251033359	79	4030282369		
19	2051062896	80	4030282377		
20	2050111032	81	4030284417		
21	2057008987	82	4030286840		
22	2066002278	83	4030286836		
23	2055025545	84	4030286839		
24	2055007709	85	4650081067		
25	2050070195	86	4030290263		
26	2055126352	87	4031231357		
27	2050075219	88	5860612615		
28	2050040585	89	1128183065		
29	2058000080	90	4030241236		
30	2511015283	91	3350043397		
31	3450008683	92	5855066247		
32	3550022454	93	2051026298		
33	3400010861	94	2252061539		
34	3452004992	95	2050094362		
35	3403016545	96	1010428087		
36	3452007443	97	1010430093		
37	3350039005	98	1010430137		
38	1126001819	99	1010181366		
39	3450014483	100	1131055138		
40	1010269234	101	1010268243		
41	1010287131	102	1010295846		
42	1011141503	103	1010299840		
43	1131303455	104	1010418224		
44	2066003484	105	2051055822		
45	2051050906	106	2051032340		
46	2062032624	107	2050132598		
47	2052002517	108	2062618302		
48	2057007883	109	2063606494		
49	1010432349	110	2050097252		
50	1010434293	111	2050099744		
51	1010430654	112	2050099769		
52	1010437305	113	2050099771		
53	1010463167	114	2050092381		
54	1010463164	115	2050109593		
55	1010467904	116	2050083032		
56	1010466109	117	2050083036		
57	1010466104	118	2050104252		
58	1010610111	119	2050041565		
59	1132107166	120	1010428089		
60	1010452834	121	1010428088		
61	1131295252	122	1010425058		